

# The Incorporated Accountants' Journal

The Official Organ of

The Society of Incorporated Accountants and Auditors

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## Professional Notes.

THE Annual Dinner of the Incorporated Accountants' District Society of Liverpool was held on February 17th in the Midland Adelphi Hotel, Liverpool. It will be observed from our report that, in the absence of the President, Mr. Alexander Hannah, through indisposition, the chair at the dinner was occupied by the Lord Mayor of the City, Councillor Alfred Gates. This is distinctly an innovation, but no doubt the enforced absence of the President at the last moment caused the Committee to invite the Lord Mayor to take the chair, especially having regard to the fact that the two Judges of Assize, Mr. Justice Hawke and Mr. Justice Lawrence, were both present as guests, and occupied seats to the immediate right and left of the Chairman.

Mr. E. Cassleton Elliott, President of the Society of Incorporated Accountants and Auditors, speaking at the dinner of the Liverpool District Society, said: Incorporated Accountants must have personality and character, based on four qualities—judgment, initiative, breadth of vision, and consideration for others. Judgment on a set of accounts or an investigation must be soundly based upon facts, without incursions into the realms of fancy or personal prejudice. Initiative could always make improvements in an apparently perfect set of accounts, to show new features of a business which called for attention. The accountant must be broadminded enough to appreciate the client's point of view when perhaps it might differ from the purely professional point of view, and his consideration for others should develop in him a sound commercial sense and enable him to secure that his clients, who were generally business men, were as well satisfied with every transaction as he was himself.

Speaking at a luncheon of the Incorporated Accountants' London and District Society on February 22nd, Dr. Norwood, Headmaster of Harrow School, advocated certain reforms in the curriculum for secondary schools. He said that the controversy as to whether the school certificate should be accepted in lieu of matriculation was not merely a technical quarrel, but raised an issue of fundamental importance. Whereas the cleverer students would qualify for the university at the age of fifteen and enter prematurely on a specialised course, the remainder would have to work with the matriculation in view, although they had no intention of entering a university. The possession of a matriculation certificate had become a condition for obtaining a post.

For most people, said Dr. Norwood, secondary education ended at the age of sixteen. Whereas

6 per cent. entered universities, 94 per cent. went into business, commerce or industry. Educationalists should think out a course which would justify itself for the 94 per cent., a course which would be related to the life which they would lead. There was nothing wrong with the conception of secondary education, but it should give a knowledge of the English language, of a foreign language and of mathematics and science. A secondary course should be based on our own industry and culture. Its foundation should be the use of our own tongue in speaking and writing, a real grasp of the history of the nineteenth and twentieth centuries, not only of Britain but also of Europe and America, as well as the geography of the world to-day. A foreign language should be included, preferably French. Mathematics was of great importance, and there should be a general course in science, including biology. A full report will appear in our next issue.

An advertising accountant describes himself as S.F.I.A.C., F.A.C.S., L.N.A.A. He also calls himself an Income Tax Accountant and Certified Auditor. What are the advertiser's qualifications?

The President of the New York Stock Exchange has made an announcement explaining the requirements recently adopted by the Exchange that listed companies shall have their annual accounts audited by independent public accountants. The announcement states that since April, 1932, all companies applying for the listing of their securities upon the New York Stock Exchange have been asked to enter into an agreement to the effect that future annual financial statements published more than three months after the date of the agreement shall be audited by independent public accountants, qualified under the laws of some state or country, and shall be accompanied by a certificate of such accountants showing the scope of the audit and the qualifications, if any, made by them in respect thereto. Exceptions have been made only in the case of certain railroad companies.

Meantime the Stock Exchange has not required audited statements to be filed with applications for listing because it was felt that applicants who had relied upon the former practice of the Exchange would have been subjected to undue delay if the committee had pursued any other course, but the Stock Exchange now announces that after July 1st next all listing applications from companies must contain the accountants' certificate above referred to for the most recent fiscal year. It is further specified that in general the audit or audits must cover all subsidiaries,

and that the scope of the audit must be not less than that indicated in a pamphlet entitled "Verification of Financial Statements," issued by the Federal Reserve Board in May, 1929, and obtainable from that board at Washington. The committee reserves the right to make exceptions to these requirements in unusual or extraordinary cases where the enforcement of the requirements would, in its opinion, be manifestly unwise or impracticable.

In our correspondence columns this month there will be found two letters dealing with the position of auditors of public companies and their duties. It is not quite clear from Mr. Horne's letter whether he advocates an alteration with regard to the duties of auditors or the voluntary extension of their powers. Under the existing law it was decided in the case of the *London and General Bank* that it is not the duty of auditors to consider whether the business of the company is or is not being prudently carried on; they simply have to ascertain the true financial position of the company at the time of the audit. It is usually found that auditors' duties are sufficiently onerous under the present law and any attempt by auditors to exceed their proper functions, while involving them in very considerable risks, would at the same time meet with strenuous opposition. To criticise the administrative actions of a board of directors in a report to which the public have access would be a very dangerous proceeding. Boards of directors, like other bodies, are liable to errors of judgment, but it is not necessarily in the interests of the company or its shareholders that such errors should become public knowledge.

Respecting Mr. Buchanan's letter, we do not think there is any likelihood that shareholders of public companies will allow the appointment of auditors to pass out of their control. It may be that in some cases—and even in numerous cases—the appointment is largely controlled by the directors of the company, but the shareholders are nevertheless in a position at any time to exercise their voting power. If they do not do so it is their own fault and they can hardly complain if they are prejudiced by neglecting to exercise their rights. Another aspect of the matter is that they have appointed the directors, in whom presumably they have confidence, and it is not unreasonable that, in normal circumstances, they should, to some extent, be guided by the directors in the selection of auditors.

To delegate the appointment of auditors to a Government Department would tend to



concentrate the work in the hands of a limited number of large firms, because the Department would not take the responsibility of nominating a firm which was not well known. The more practicable course is to prevent the removal of auditors who have once been appointed by the shareholders without some satisfactory reason being given and upon the resolution of a large majority of the members. A step in this direction has already been taken in the provision which now exists in the Companies Act, 1929, that an auditor shall not be removed without due notice being given by the company, both to the auditor and to the shareholders. It is unfortunately a fact that shareholders do not always support their auditors when they take a firm stand against the directors, but in such circumstances the shareholders can hardly complain if they suffer loss.

The Postmaster-General, speaking at a luncheon of the Liverpool Chamber of Commerce, said that a number of improvements are about to be made in the express delivery service so as to make it of still more use to the public. The special Sunday service will be extended to all towns which receive mails on Sundays where delivery can be effected. Express delivery will also be made both earlier in the morning and later in the evening than at present wherever the circumstances justify it, such as the volume of expressed correspondence. Under the new arrangements the Post Office will, for a flat rate charge, also forward small packets weighing up to 2 ozs., as soon as they are handed in, by the quickest means of transport available, and deliver them at the earliest moment. This new service will not supersede the present railway letter service.

Statistics of the Trustee Savings Banks Association for the year ended November 20th last have now been published, and they show that the total combined funds of the various departments increased during the year by £12,238,000 and at the end of the year amounted to £202,326,000. Each department of these banks, namely, the Ordinary Department, the Special Investment Department, and the Government Stock Department, showed an increase, the largest being under the head of Special Investments.

The question of the right of a company to charge as an expense for Income Tax purposes compensation paid to directors for loss of office, has been before the Courts on several occasions. Another case of this character came before Mr. Justice Finlay in the King's Bench Division recently in relation to the affairs of *Ashford, Dunn & Co., Limited*. Immediately before the

completion of an agreement for the sale of the company's business, a resolution was passed to pay a substantial amount to the directors as compensation for loss of office, and the question was whether this amount could properly be deducted as being money wholly and exclusively laid out for the purpose of the business or whether it was an application of the profits after they had been earned. In giving judgment in favour of the Crown (and reversing the decision of the General Commissioners), his Lordship said it was not a case in which directors for *bona fide* business reasons, and in the best interests of the company, conceived it necessary to get rid of a colleague and had to pay him to go. He accordingly regarded the payment as a distribution of profits which had been earned and nothing else.

A point of some importance arose before Mr. Justice Lawrence in the King's Bench Division, in the liquidation of *Trent Mill (1920), Limited*, in which it was sought to make the liquidator of the company liable on a contract entered into before the liquidation, on the ground that he had not disclaimed the contract but had varied it by asking to be allowed to pay for the goods after delivery. It was suggested that a liquidator was in exactly the same position as a receiver and manager who would be personally liable if he entered into a contract, but his Lordship refused to accept this view. A receiver and manager, he said, usually acted for the debenture holders and not for the company, but a liquidator was the agent of the company. He accordingly held that the liquidator was not liable.

In this connection it will be remembered that in the Companies Act, 1929, there is a provision whereby a liquidator may disclaim onerous contracts, but the general view is that the object of the section is not to relieve the liquidator from personal liability, as the property of the company never vests in him, but to enable the affairs of the company to be wound up without undue delay, and this view is confirmed by the decision above referred to.

A decision has been given by Mr. Justice Eve in the Chancery Division whereby the purchaser of a business as a going concern has been held liable for an amount in excess of the actual price which he agreed. A receiver and manager on behalf of debenture holders was appointed in February, 1931, and the company was ordered to be wound up compulsorily in March of the same year. The agreement for sale was made in July, 1931, and the receiver

and manager had included in his accounts an amount of about £12,000, representing rent, light, water, &c., which became due before the date of his appointment, and this amount the purchaser was asked to pay in addition to the purchase price. It was argued that under the general law outgoings down to the time that a purchaser entered into possession was the liability of the vendor. On behalf of the receiver it was maintained that the terms of the contract were clear and simple, and it was the contract and not the general law that must prevail.

Mr. Justice Eve, in giving judgment, said that the receiver and manager had discharged debts which were current at the time he took charge of the business, and it was his duty to do so if he was to carry on the business as a going concern. The purchaser, under the agreement for sale, was accordingly bound to accept and become liable for the payment of these debts. The case apparently turned on the provision contained in the contract that the receiver and manager was to carry on the business as a going concern.

The House of Lords has now dismissed the Appeal of the Crown from the decisions of the lower Courts in the case of *Wiggins (Inspector of Taxes) v. Trustees of F. G. M. Watson* (reported in our issue of September last at page 467). The point at issue was briefly whether the trustees of a settlement, whereby an annuity was payable by the settlor during the joint lives of himself and his infant son, were entitled to claim repayment on behalf of the infant beneficiary in respect of the income tax deducted from the annuity, notwithstanding that the settlor had the right, with the consent of any one of five named persons, to revoke the settlement. The Crown contended that owing to the power of revocation reserved by the deed, the settlement was "for some period less than the life of the child," and that therefore, by sect. 20 (1) of the Finance Act, 1922, the income payable to the child must be deemed to be the income of the settlor.

Lord Buckmaster, in giving judgment, pointed out that it was admitted on behalf of the Crown that the claim was not invalid merely by reason of the fact that the settlement was made for the joint lives of the settlor and his son, and therefore the only question was whether the power of revocation resulted in the limitation of the child's interest to a period less than the life of the child. The contrast between sub-sect. (a) and sub-sect. (c) was so marked, however, that in his

Lordship's opinion it was clear that the draftsman had contemplated the position which would arise if a settlor had a power of revocation in cases such as that under consideration. In his view, it was never intended that the insertion of a power of revocation which was outside the scope of sub-sect. (a) should have the effect of limiting the operation of the deed to a period less than the life of the child. Judgment was accordingly given, dismissing the appeal of the Crown.

Writing on the economic and financial position of America, the New York correspondent of *The Times* says that the great majority of the people of that country are completely unaware that there has been any change in America's position from a debtor to a creditor country, and consequently of any necessity for a revision of their traditional ideas about tariffs. He adds that this great legion of the unaware is hurt, puzzled and angry now because it is feeling the grinding force of deflation. Raising its crops and minding its own business as it has always done, it is unable to understand why it is not at least as well off as it has always been and that men who attempt to show it the truth are apt to be regarded as the tools of Wall Street. Finally, he says that "pressure on the pocket-nerve" is almost the only thing that moves these people, and it is a pressure that takes a long time to become effective. They are feeling it now, but they have not yet come to understand what produces it.

Sir Josiah Stamp has been emphasising the necessity of historical perspective in looking at the economic position of the world. In the past, he said, there had been pessimists, and they had ultimately been wrong. William Pitt had said: "There is scarcely anything around us but ruin and despair." Wilberforce in the early part of the nineteenth century said: "I dare not marry, the future is so dark and unsettled." Lord Grey in 1810 "believed everything was tending to a convulsion." The Duke of Wellington, on the eve of his death in 1851, thanked God he would "be spared from seeing the consummation of ruin that is gathering around us." Disraeli, in 1849, said: "In industry, commerce and agriculture there is no hope." Lord Shaftesbury, in 1848, said: "Nothing can save the British Empire from shipwreck." Concluding, he added that we might consider we had more grounds for our doubts and fears to-day than on the occasions referred to, but the trouble was made by man's own complications and not by nature, and man ought to have the wit and the patience to extricate himself.



## GIFT OF AN ANNUITY FREE OF INCOME TAX.

THE question whether a gift of an annuity free of income tax entitles the donee to require payment to be made free from any deduction for sur-tax is in the main cleared up by the decision of the Court of Appeal in *re Reckitt* (1932), which establishes the principle that under such a gift the beneficiary is entitled to the annual sum free of sur-tax as well as of income tax. In that case a testator, by his will dated November, 1924, bequeathed to his trustees the sum of £200,000 upon trust to invest it in any of the investments thereafter authorised, and to hold the investments upon trust to pay his wife during her life the annual sum of £5,000 free of income tax.

The Master of the Rolls said that sur-tax was introduced by the Finance Act, 1927, and in every essential feature super tax and sur-tax were the same tax. For the purposes of super tax there was a duty cast upon every person chargeable therewith to give notice that he was chargeable, so that the initiative was laid upon the subject, while in the case of income tax the assessment was made upon him by the surveyor. The Income Tax Act, 1918, enacted that all provisions of the Act relating to persons who were to be chargeable with income tax, and to income tax assessments, and to appeals against those assessments, and to the collection and recovery of income tax should, so far as they were applicable, apply to the charge, assessment, collection, and recovery of super tax. Therefore it could be said that super tax was an additional income tax, although its incidence, the mode of its initiation, and the mode of its collection, were different.

The learned Judge felt unable to recognise any distinction between income tax and super tax when construing the words "income tax" as used in the testator's will. He was not unmindful of the inconvenience which this decision would cause to those who had to fulfil the duty cast upon them as trustees by that direction of the will. It was easy to carry out the direction to pay free of income tax, but the duty of paying free of super tax could only be carried out in quite a different and much more burdensome manner.

Earlier cases left the matter in great doubt. In *re Crawshaw* (1915) it was held that the phrase "clear of all deductions, including income tax" did not include super tax. It was pointed out that the nature of supertax was that it was

paid upon an assessment made by the assessor; it was not paid by deduction, and rules 19 and 21 of the All Schedules Rules did not apply. Thus, where a reference was made to a "deduction"—indicating that the freedom which was to be allowed was in regard to a deduction in a case to which the system of deduction applied—the Courts might come to the conclusion that super tax was not included. In *re Dowd* (1920) a different view was taken. The words to be considered in that case were: "I give to my wife an annuity of £2,500 during her life, free of income tax and of all other deductions." There Mr. Justice Sargant held—refusing to treat the words as to deductions as diminishing the force of the previous words—that the widow was entitled to the amount of the annuity free from income tax and super tax.

In the year 1925 the question again arose in the case of *re Bates*, in which there was a gift to the wife of "such a sum in every year as after deduction of the income tax for the time being paid in respect thereof will leave a clear sum of £2,000." Mr. Justice Russell held that the gift was free of income tax only, and that the wife was not entitled to payment of any sum in respect of super tax. He founded his judgment upon the reference to "deduction," and said that super tax was not a charge in respect of any particular annuity or sum, but was a charge in respect of the recipient's whole income and was not a matter with which the trustees would be charged or concerned at all. He then held that the testator did not intend that in addition to income tax being deducted a proportion of the super tax payable by his wife in respect of her total income should also be deducted. In the terms of the gift there was to be found a restrictive indication.

Reverting to the *Reckitt* case, the Master of the Rolls in concluding his judgment said that the trustees were simply directed to hand over a sum of £5,000 in each year free of income tax. It was not prescribed in what instalments that sum was to be paid. No reference was made to the system of, or the power of the trustees to make, deductions; there was simply a direction that a total sum in each year was to be paid free of income tax. Super tax or sur-tax was in essence an additional income tax, and, as there was no indication to restrict the words to income tax as known for so many years, it followed that freedom was given to the widow in respect of both income tax and the additional income tax known as sur-tax.

The effect is that the amount of sur-tax increases year by year.

## THE NEW RATING VALUATION.

[CONTRIBUTED.]

It may not be generally known that a new valuation for rating purposes of all properties outside London is now proceeding. Ratepayers should accordingly take note of the steps which will be taken during the next few months, as prompt action may obviate subsequent difficulties, and probably prevent increased assessments. In connection with the new valuation, two Rating Acts have been passed by the present Parliament, a brief explanation of the salient points of which, and the procedure generally, may be found useful.

In the first place, forms will be sent out by the rating authorities—or most of them, at least—asking the occupier or owner certain particulars, but these forms may not be received in all cases. The issue of the forms is dependent upon the practice of the rating authority concerned, as the second Rating and Valuation Act of 1932 gives discretionary powers to the rating authorities in this connection. Under the 1925 Act it was obligatory to send out the forms, and most of the authorities are still continuing the practice. In due course, the valuation proceeds, and as soon as Draft Lists are completed, they are placed on deposit for public inspection, usually at the offices of the rating authority. It should be particularly noted that individual notification of figures or date of deposit is not given to each person, the only notification being an advertisement of the time and place of deposit. It therefore behoves everyone to watch for the lists, which remain open to public inspection for 21 days. If there is anything in the lists with which the ratepayer is aggrieved, he can enter an objection to the Assessment Committee concerned within 25 days from the first date of deposit. The objection entails no expense, and little inconvenience; it is really an informal method of settling assessments.

An Assessment Committee is composed partly of members of the Council of the municipality or other authority (according to the particular assessment area scheme), and partly of members from outside. Thus the ratepayer is represented as well as the collecting authority. An appeal can afterwards be entered to Quarter Sessions, but this would entail expense, as legal assistance would be necessary.

The new valuation applies to rate payments accruing from April 1st, 1934, and Draft Lists will be placed on deposit from now onwards. All these lists are supposed to be in the hands of the Assessment Committees by June, 1933, at latest, after which frequent meetings of the Assessment Committees will take place for the hearing of objections and the revising of the lists, but the Statute requires that the lists shall be finally approved by January 31st, 1934.

There are two methods of ascertaining the rateable value—gross value when the owner pays for repairs, and net annual value when the repairs are undertaken by the tenant. From the gross value, certain statutory deductions are allowed by the first Rating and

Valuation Act of 1932. The deductions in question apply to "houses and buildings without land except gardens." In other words, ordinary house and shop property. Up to a gross value of £15, the allowance is 40 per cent. of the gross value. Where the gross value exceeds £15 but does not exceed £20, the allowance is £6 together with an amount equal to 30 per cent. of the amount by which the gross value exceeds £15. If the gross value exceeds £20 but does not exceed £40, £7 is allowed or an amount equal to 25 per cent. of the gross value whichever is the greater. If the gross value exceeds £40 but does not exceed £100, the deduction is £10 or an amount equal to 20 per cent. of the gross value whichever is the greater. For premises where the gross value exceeds £100, £20 is allowed together with an amount equal to 16½ per cent. of the amount by which the gross value exceeds £100.

It should be noted that if premises have previously been scheduled as Industrial, they will be similarly treated for this valuation, and will be assessed on one quarter of the valuation figure. If anyone, whether owner or occupier, thinks his premises should be included as Industrial he must make special application, otherwise the premises will be scheduled for assessment on full valuation basis. At the last valuation, most ratepayers found that the valuations had been increased, the standard of valuation being post-war building costs and post-war rental values. It was also claimed that in many cases increases were necessary to secure uniformity of assessment. More ratepayers could now claim that, as building costs have come down and there is a tendency for rents also to be reduced, decreased valuations in many cases should be scheduled or, if lower assessments cannot be secured, that at least the assessments should not be raised above the present levels.

## QUESTIONS IN PARLIAMENT.

### Income Tax.

Mr. LLOYD asked the Chancellor of the Exchequer whether he has received the report of the Committee of Enquiry into the position of co-operative societies in relation to the Income Tax; and, if so, whether the report will be published?

Mr. CHAMBERLAIN: The report has been received and will be published in due course as a White Paper for the information of members.

### Local Authorities' Accounts.

Mr. HALL CAINE asked the Minister of Health whether in view of the fact that every recent special audit of local authorities' accounts has revealed irregularities, he will consider the desirability of introducing measures to ensure better methods of supervision?

Sir H. YOUNG: Special audits as distinct from the ordinary periodical audits are only held where irregularities are known or suspected to exist. It is the constant aim of my Department to secure adequate financial control by means of continuous supervision of accounts, and every opportunity is taken, through the District Audit Service and otherwise, of impressing this need upon local authorities.



## WEAR AND TEAR ALLOWANCES AND SECTION 34 CLAIMS.

### Board of Inland Revenue Ruling.

Following a question in Parliament by Mr. G. C. Touche, M.P., in November last, and an answer by Mr. Chamberlain (which appeared on page 98 of our December issue), when it was stated that the Board of Inland Revenue had certain cases of alleged hardship under consideration, the Chancellor of the Exchequer has now written to Mr. Touche stating that the investigation of the cases in question has been completed by the Board of Inland Revenue with the following result:—

"They (the Board of Inland Revenue) have decided that the old concessions can, if the taxpayer so desires, continue to be applied—as regards both wear and tear and interest—in the case of all claims under sect. 34 of the Income Tax Act, 1918, for years up to and including the year 1931-32.

"As regards the year 1932-33 and future years, dealing first with the wear and tear concession, the strict legal position is that, in computing a taxpayer's loss for purposes of a claim under sect. 34, no account can be taken of the allowance in respect of wear and tear of plant and machinery, since this allowance does not rank as a business expense *in arriving at the amount of a profit or loss* for the purpose of computing a taxpayer's income tax liability, but as a deduction *from the computed profits* falling to be assessed.

"Notwithstanding this position, where there is a balance of wear and tear due to the taxpayer after taking account of the amount allowed in the assessment for the year of claim, the Board will be prepared, for the year 1932-33 and future years, to allow this balance of wear and tear (subject to a maximum amount not exceeding the amount of wear and tear due for the year of claim) to enter into the computation of the loss for purposes of a sect. 34 claim, provided the taxpayer gives an undertaking that the addition for wear and tear under this concession will be regarded as having been effectively allowed for all tax purposes.

"Where the taxpayer has had full allowance for wear and tear for all years up to and including the year of claim there is clearly no ground for any further allowance of wear and tear in connection with the loss claim.

"It is considered that the modifications indicated above will meet all legitimate criticism and will prevent any real hardship.

"Coming now to the interest concession you will appreciate that, on payment of annual interest and other similar charges, the taxpayer is entitled to deduct income tax at the standard rate and thus recoup himself for the tax applicable to these payments. He is consequently precluded, under the provisions of the income tax law, from claiming these payments as a deduction in computing profits or loss for income tax purposes.

"The only effect of allowing these payments to augment a loss for purposes of a sect. 34 claim (as was done under the old concession) was to give the taxpayer a double allowance in respect of his interest payments, first by deduction of tax on making the payments, and secondly by allowance in the loss claim, and this had to be rectified by making a corresponding artificial assessment in the following year. The Board of Inland Revenue came to the conclusion that this procedure was both cumbersome and unnecessary, and they see no reason which would justify the continuance of this concession for years subsequent to 1931-32. With this view I entirely concur, and I have approved the revised concession as explained above."

## Society of Incorporated Accountants and Auditors.

### MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our last issue:—

#### ASSOCIATES TO FELLOWS.

FISK, WILLIAM, Borough Accountant of Maidstone, Municipal Offices, Maidstone.

GOODCHILD, PERCY JAMES, 19, London Wall, London, E.C.2, Practising Accountant.

GREEN, HERBERT WILLIAM (James L. & F. S. Oliver), 18, Grainger Street West, Newcastle-upon-Tyne, Practising Accountant.

PERRY, CHARLES EBEN (Miles Taylor & Co.), 82, Coleman Street, London, E.C.2, Practising Accountant.

PULSFORD, EDWIN GEORGE, 233, High Street, Poole, Practising Accountant.

ROBSON, JOHN ELTRINGHAM (James L. & F. S. Oliver), 18, Grainger Street West, Newcastle-upon-Tyne, Practising Accountant.

SANDERSON, JAMES BENJAMIN, B.Com. (W. Wallis Povah & Co.), 5, Arcade Street, Ipswich, Practising Accountant.

WINDLE, ROBERT SLATER (Windle & Bowker), Midland Bank Chambers, Barnoldswick, via Colne, Practising Accountant.

#### ASSOCIATES.

BARLOW, SYDNEY, Audit Department, Co-operative Wholesale Society, Limited, Corporation Street, Manchester.

BEAUMONT, EDWARD, City Treasurer's Office, Municipal Buildings, Leeds.

BENNETT, RAYMOND, formerly Clerk to Gill & Thurlow, Martins Bank Chambers, 2A, Tyrrel Street, Bradford.

BENTHAM, WALTER, Clerk to Bottomley & Smith, Halifax Permanent Chambers, Cavendish Street, Keighley.

BIRDSALL, STANLEY SAMUEL, Clerk to Whitfield, Wilson, Couper & Co., Martin's Bank Chambers, Park Row, Leeds.

BISS, RICHARD WILLIAM HENRY, Borough Treasurer and Comptroller's Department, Municipal Chambers, Corn Street, Newport, Mon.

BLACK, NORMAN, Clerk to W. J. M. Stewart & Co., 75, High Street, Belfast.

BRYAN, HERBERT WILLIAM RIDLEY, Clerk to Hilton, Sharp & Clarke, 14, Grays Inn Square, London, W.C.1.

BRYANT, CYRIL HENRY, Clerk to Bobart, Baskett & Co. Salisbury Chambers, 65-66, Basinghall Street, London, E.C.2.

BUNTING, FRED, City Treasurer's Office, Exchange Buildings, Cheapside, Nottingham.

BYE, LEONARD CHARLES, Clerk to Jas. H. Simmonds, 44, Albert Road, Middlesbrough.

CHUTER, GEORGE STEPHEN, The Accountant, Export Credits Guarantee Department, 9, Clements Lane, Lombard Street, London, E.C.4.

COLE, LEONARD ALFRED, Clerk to Black, Geoghegan & Till, Orient House, 21, Budge Row, London, E.C.4.

COWTAN, GLADYS LAURA, formerly Clerk to Homersham & Co., 118, Baker Street, London, W.1.

DAS, ROHINI KANTO, B.Sc., formerly Clerk to James S. Fraser, 69, West Regent Street, Glasgow.

- DAVIES, GEOFFREY, Clerk to Harwood Banner & Son, 24, North John Street, Liverpool.
- DENNING, ARTHUR, Clerk to Ware, Ward & Co., 21, Cathedral Yard, Exeter.
- DOUGAN, DENNIS LESLIE, Central Station Chambers, 147, Holdenhurst Road, Bournemouth, Practising Accountant.
- DRUMMOND, JOSEPH MARNACH, Borough Accountant's Department, Municipal Buildings, Valpy Street, Reading.
- DUFTON, GLADYS, Clerk to J. Pearson & Son, 5, Godwin Street, Bradford.
- FARROW, ARTHUR, Clerk to John Gordon & Co., 7, Bond Place, Leeds.
- FETZER, LUDWIG GEORGE, formerly Clerk to Wayte, Bednall & Co., 31, Albion Street, Hanley, Stoke-on-Trent.
- FLINT, RALPH GORDON, Clerk to Larking, Larking & Whiting, Bridge Buildings, Nene Quay, Wisbech.
- FURNEAUX, LESLIE WILLIAM, Clerk to Weeks, Hillyard & Co., Weavers' Hall, 22, Basinghall Street, London, E.C.2.
- GAY, WILLIAM THOMAS, Clerk to T. Harold Platts & Co., 126, Colmore Row, Birmingham.
- GOLDSTON, GERALD, A.C.A. (J. G. Hopkins & Co.), Royal Exchange, Middlesbrough, Practising Accountant.
- GOLLEY, ALFRED EDWARD, Finance Department, Surrey County Council, County Hall, Kingston-on-Thames.
- GOULDER, GEORGE EDWARD, Clerk to S. J. Dudbridge & Sons, 8, Lansdown, Stroud, Glos.
- GRIST, CHARLES GEORGE, Clerk to Alfred Laban, Son & Co., 25-27, Oxford Street, London, W.1.
- GUYLER, SIDNEY ROBERT, Clerk to Cedric H. Bennett, High Holborn House, High Holborn, London, W.C.1.
- HABLE, JOHN WALTER, Clerk to Bennett & Grainger, Portland House, 73, Basinghall Street, London, E.C.2.
- HAWKINS, LESLIE WILLIAM, Clerk to Layton-Bennett, Chiene & Tait, 3, London Wall Buildings, London, E.C.2.
- HEATHERILL, JOHN RICHARD, Clerk to Huie & Ramage, 21, Rutland Square, Edinburgh.
- HEYWARD, LEONARD CHARLES, Clerk to S. E. Denning & Co., 20, Bedford Row, London, W.C.1.
- HIGNETT, JOHN WARNER, Clerk to Collinge & Halstead, St. Mary's Chambers, Fleet Street, Bury, Lancs.
- HODIERNE, FRANK HENRY, Clerk to Hull, Chapman & Co., Turnbull's Chambers, 14, High Street, Coventry.
- HUMPHREY, WILLIAM CURTIS, formerly Clerk to Jones, Robathan, Thompson & Co., 18, King Street, Carmarthen.
- JACQUES, JOHN ROWLAND, Clerk to Turton, Ross & Co., 4, Middle Pavement, Nottingham.
- JAMES, CLEMENT HASTINGS, A.C.A. (Woodington, Bubb & Co.), 5, Philpot Lane, London, E.C.3, Practising Accountant.
- JENKINS, RICHARD, Clerk to H. Slater & Son, Sussex House, Hobson Street, Cambridge.
- LOCKETT, THOMAS LEESON, Accountant's Department, Mitcham Urban District Council, Council Offices, Mitcham, Surrey.
- LUCAS, RONALD SAYWIN, Clerk to Johnstone, Moulder & Co., 13, Church Street, Kidderminster.
- MARSDEN, STANLEY, City Treasurer's Department, Town Hall, Sheffield.
- MIDDLETON, WILLIAM JOSEPH, Clerk to Rawlins & Tennant, 102, Colmore Row, Birmingham.
- MORRELL, RONALD, Clerk to Carlill, Burkinshaw & Ferguson, 2, Parliament Street, Hull.
- MOTHERSDALE, HAROLD, Borough Treasurer's Department, Town Hall, Wolverhampton.
- PARKER, ALFRED WALTER, Borough Treasurer's Department, Town Hall, Eccles.
- PARKER, HENRY STANLEY, City Treasurer's Department, The Council House, Birmingham.
- PEARCE, MORLEY FRANCIS, 9, John Street, Bristol, Practising Accountant.
- PERKS, EDWIN WALTER, Clerk to G. K. Tucker & Wilson, Calcutta House, Loveday Street, Johannesburg, South Africa.
- PHILLIPS, JAMES ROBERT, Clerk to C. Hewetson Nelson, Robson & Co., 43, Castle Street, Liverpool.
- PORTER, EDWARD ERNEST, Clerk to Deloitte, Plender, Griffiths & Co., Bank Buildings, Temple Street, Swansea.
- PRESTWICH, HAROLD JAMES, Clerk to James Todd & Co., 18, Birley Street, Blackpool.
- REILLY, JOHN ARNOLD, Clerk to Muir & Addy, 7, Donegall Square West, Belfast.
- RICHES, FRANK JOHN, Clerk to F. W. Palmer & Co., 13, Bank Plain, Norwich.
- RING, WENDOLIN CYRIL, Treasurer's Department, Willesden Urban District Council, Town Hall, Dyne Road, Kilburn, London, N.W.6.
- ROBERTS, THOMAS BENNETT MOTTRAM, Clerk to Kay, Robson & Co., Melbourne House, Aldwych, London, W.C.2.
- ROGERS, JOSHUA REDFORD, Clerk to Clare Catley, Smith's Chambers, 6, Westborough, Scarborough.
- SAUNDERS, SIDNEY THOMAS, Clerk to A. J. Harper & Co., 10, Coleman Street, London, E.C.2.
- SEN GUPTA, BENOYENDRA PRASAD, B.Sc., Clerk to Pix & Barnes, 24, Coleman Street, London, E.C.2.
- SIMS, JONATHAN, Clerk to Howard, Morris & Crocker, 102, Victoria Road North, Portsmouth.
- SLATCHER, REGINALD NORMAN, Clerk to C. A. Moulton & Co., Yorkshire Buildings, Wood Street, Wakefield.
- SMITH, ARTHUR HODGSON, Clerk to Lee & Greaves, 35, Bank Street, Bradford.
- SMITH, HAROLD ASKEW, Clerk to Ashworth, Moulds & Co., 7A, Yorkshire Street, Burnley.
- SOPER, WILLIAM JOHN, Clerk to Croydon & King, 7, Grosvenor Gardens, London, S.W.1.
- STANLEY, WILLIAM, Clerk to J. Cyril Page & Co., May Buildings, 51, North John Street, Liverpool.
- SYER, WALTER REGINALD, Clerk to Cooper Brothers & Co., 14, George Street, Mansion House, London, E.C.4.
- TAYLOR, EDWARD ALLEN, Clerk to Stephenson, Smart & Co., The Broadway, St. Ives, Hunts.
- TIPPING, JOHN, Borough Treasurer's Department, Town Hall, Wallasey.



VARNEY, HAROLD OSWALD, Comptroller's Department, London County Council, County Hall, Westminster Bridge, London, S.E.1.

WADE, EDWIN JOHN, Clerk to D. H. Husband, Adelaide House, Adelaide Street, Docks, Cardiff.

WARREN, ERIC WILLIAM, Clerk to Leslie A. Tomlinson, Eldon Chambers, Wheeler Gate, Nottingham.

WEBB, EDWARD GEORGE NEWMAN, Clerk to Burnett, Burnett & Swayne, 4, Portland Street, Southampton.

WHITE, RALPH BERNARD, Clerk to J. Tindall Bunch, Imperial Buildings, Bridge Street, Walsall.

WOODWARD, WILLIAM STANLEY, Clerk to Mellors, Basden & Co., Portland House, 73, Basinghall Street, London, E.C.2.

YEELES, ALAN ROBINSON, formerly Clerk to White & Crowe, Erskine Chambers, 15, Grainger Street West, Newcastle-upon-Tyne.

YOUNG, FREDERICK BRIAN, formerly Clerk to W. & T. Hughes, 12, Frederick Street, Sunderland.

## Obituary.

### RICHARD SMITH.

We much regret to record the death of Mr. Richard Smith, F.S.A.A., of the firm of Richard Smith & Son, Incorporated Accountants, Westgate Road, Newcastle-upon-Tyne, who died on February 10th in his eighty-first year. Mr. Smith originally went to Newcastle in the year 1875, and became a Fellow of the Society in 1889. He served as a member of the Council from 1908 to 1928. In 1896 he became one of the founders of the Incorporated Accountants' Newcastle-upon-Tyne District Society, and after holding the offices of Hon. Secretary and Hon. Treasurer he was appointed President, a position which he held for 21 years. On his retirement he was presented with a silver salver by the members in appreciation of his services and was elected an *ex officio* Vice-President. For some years Mr. Smith was associated with the enterprises of the late Sir Charles Parsons and was secretary of the Marine Steam Turbine Company and also of the Parsons Marine Steam Turbine Company. He was also connected with the company which built the bridge over the Tyne at Newburn, and was at one time secretary to the North Sunderland Railway Company. Mr. Smith was also auditor to the Dean and Chapter of Durham, and was made an Honorary Life Member of the British Red Cross Society in recognition of accountancy services rendered during the war. For nearly half a century he was secretary for the Newcastle Eye Infirmary, and when the necessity arose for appointing a whole-time officer he joined the committee of management. In 1902 his son, Mr. Frederic W. Smith, qualified as a member of the Society and joined his father in partnership. While Mr. Smith was a quiet and unassuming man, he possessed sound judgment and a genius for friendship, and his death is a distinct loss to the Society of Incorporated Accountants and Auditors and its district organisation at Newcastle.

### THOMAS ENOCH LOWE.

Lieut.-Colonel T. E. Lowe, O.B.E., T.D., F.S.A.A., died after a short illness on February 4th last. He was the senior partner in the firm of T. E. Lowe & Co., Incorporated Accountants, of Wolverhampton, and commenced to practise in the year 1882. Upon the incorporation of the Society he was elected an original

member. Colonel Lowe was prominently associated with the public life of Wolverhampton, of which he was one of the Borough Magistrates. In the year 1897 he became connected with the Third (Volunteer) Battalion of the South Staffordshire Regiment, and was promoted to Captain in 1900. When in 1907 the 3rd (Volunteer) Battalion became the 6th (Territorial) Battalion of the South Staffordshire Regiment, Captain Lowe sustained his interest and enthusiasm in the Territorial movement. In 1914 he was second in command and in March, 1915, went overseas with the battalion. He was invalided home at a later date, and towards the end of the war he was in charge of engineering works on the Lincolnshire Coast Defences. For his services he was promoted to Lieutenant-Colonel and gazetted O.B.E. In Freemasonry he served for 25 years as Provincial Grand Secretary for Staffordshire and held office as P.G.D. in the Grand Lodge of England. Professionally, the late Colonel Lowe was associated with many well known institutions in Wolverhampton and Staffordshire, and was held in high esteem as an able and public-spirited man.

### JOHN ROBERT MIDDLETON.

We regret to state that Mr. John Robert Middleton, F.S.A.A., died on January 13th, at the age of 47. He was articled to the late Mr. W. T. Walton, Incorporated Accountant, of the firm of W. T. Walton & Son, West Hartlepool, and after gaining Honours in both Intermediate and Final examinations, was admitted a member of the Society in 1915. His association with Messrs. W. T. Walton & Son lasted till 1920, when he was appointed Chief Accountant to Furness, Withy & Co., Limited, London, an office which he retained until his death.

## Correspondence.

### THE DUTIES AND INDEPENDENCE OF AUDITORS.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—Following on the investigation into the affairs of the Royal Mail Steam Packet Company, much has been said and written regarding the information which should be given to shareholders of public companies by the directors and by the auditors: it appears that there is consequently a definite tendency on the part of directors to refrain from presenting accounts so condensed as to be almost meaningless, and auditors are beginning to consider the accounts which they certify from the point of view of the information which they give to the shareholders rather than that of their technical correctness alone.

Nevertheless, however much auditors may consider the information to which the shareholders are entitled, they rarely extend the scope of their reports beyond the limits of their statutory obligations, but restrict their remarks to the mere statement of whether the balance sheet presented to the shareholders reflects the true position of the company's affairs, or if not in what respects it is untrue or incorrect.

The vast majority of balance sheets do reflect a reasonably correct view of the state of the company's affairs, but they do not and cannot tell the shareholders many of the things which they are surely entitled to know.

In the course of his duties the auditor frequently discovers cases of unwarranted extravagance and losses arising from negligence or errors of judgment on the part of directors, but provided the actions of the directors are

honest and *intra vires* he does not usually consider it necessary to report such matters to the shareholders, who have no other means of knowing that their money has been so lost.

According to the extracts therefrom in the local Press, in his annual report on the South African Railways and Harbours the Auditor-General of the Union of South Africa reports, *inter alia*, on the following matters:—

1. A dredger which had been purchased under a twelve months' guarantee was found defective during that period and was repaired at the expense of the suppliers, but as a result of the defects the vessel had lost 679 hours dredging time resulting in a loss of £5,691. No effort was made to recover this amount from the suppliers.
2. Two locomotives, costing £5,945 each, were scrapped during the year as unsuitable after apparently an unusually short period of service, and the auditor remarks that their purchase was a short-sighted policy.
3. Boilers costing £36,785, purchased in excess of requirements, have been lying unused on some vacant ground for over a year and are deteriorating.

Had this concern been an ordinary public company and the auditor, whilst nominally appointed by the shareholders, dependent to a great extent for his office and his remuneration on the goodwill of the directors, it is most improbable that these matters would have been brought to the notice of the shareholders: yet surely such matters as these would be of vital interest to them and that they are morally entitled to the information can hardly be disputed.

Whilst it is realised that there may be many objections to the publication of information of use to trade rivals (the fact that a report to shareholders is far from a private document is appreciated), it is suggested that auditors should have the courage to widen the scope of their reports and let them become missives of vital interest to their employers, the shareholders, instead of the pitifully stereotyped formalities which they too often are to-day.

Thus could most successfully be dispelled from the minds of the investing public the impression, undoubtedly existent and unfortunately frequently justified, that the value to be derived from the services of auditors is more theoretical than real.

I am, Sirs,  
Yours faithfully,  
G. LANCE HORNE.

Durban.  
January, 1933.

To the Editors *Incorporated Accountants' Journal*.

Sirs,—Is it not time that the accountancy profession put its house in order, failing which, like the House of Lords, it may eventually have to do so on pressure from without?

The Act of 1929 did much to protect the investor by bringing "Offers of Sale" into line with prospectuses proper, but, as the Committee specially appointed by the Council of the Society of Incorporated Accountants and Auditors unanimously concluded, a Government Departmental Committee is required further to consider amending legislation.

Probably the most important change still necessary is the entire withdrawal of auditors from the exercise of managerial influence at present possible, but, short of their being appointed by the Board of Trade, either at the

instigation of majority shareholders, or, failing this, independently, it is not easy to see how this can, as things stand to-day, be brought about. Certainly until entire independence is ensured the much-sought-for confidence among investors, which we hear so much about, cannot be expected.

In the opinion of many, failing any other remedy for the present state of things, bureaucracy, however distasteful, must, sooner or later, be invoked to the extent of calling on the Government to undertake the appointment of auditors.

Yours very truly,  
WM. G. BUCHANAN.

24, Park Lane, London, W.1.  
February, 1933.

## SUR-TAX ON PROFIT RENTALS.

To the Editors *Incorporated Accountants' Journal*.

Sirs,—I have read with considerable benefit your instructive article in this month's issue of the *Journal*. Is not the reason why Mr. Neumann's share of the profit-rentals was held liable to sur-tax this: that the company, in distributing the share as a "dividend," had impressed it with the character of "income." The reason it was not "grossed up" would appear to me to be because it had not suffered income tax. Rule 20 of the General Rules, which occupied such a prominent place in the King's Bench judgment, authorises a company to recover over against its shareholders the rate of tax "appropriate" to the dividend. The profit rentals had suffered no tax: there was therefore no appropriate rate, and hence there could be no recovery of tax over against the shareholders. What, I confess, I cannot understand is, why the company did not proceed under Rule 19 as a medium for recovering tax. Probably the reason was because the company was confident the *Gimson* case applied.

What of Schedule D? Is the *Neumann* case authority for the assumption that in the years in which the actual exceeds the statutory income that the excess can be distributed so as to attract only sur-tax in the hands of the shareholders?

I do not think there is much substance in the contention that because the sur-tax has been defined as an "additional income tax" its scope must be identical with the income tax, any more than apples must be of the same size, colour and quality merely because they are described as apples. At all events, it seems to me the foregoing case opens up all kinds of interesting speculations as to its application.

I am,  
Yours faithfully,  
E. H.

Enfield,  
February, 1933.

[Our correspondent is wrong in stating that the profit rentals had not suffered income tax. The Master of the Rolls in delivering judgment said specifically that it was not right to treat the surplus of accumulated rents which remained in the hands of the company as money not liable to income tax as the company had paid income tax under Schedule A on the annual value of the properties out of which those profits accrued, and he added that if the surplus rents had not paid tax they would have been caught under Case 6 of Schedule D. The last paragraph of our correspondent's letter does not impress us. How can sur-tax be a "higher rate" of income tax as described in sect. 1 of the Finance Act, 1929, if it is not to be calculated on the same assessable figure?—Eds. *I.A.A.J.*]



## The Export Credits Guarantee Department.

A LECTURE delivered at a joint meeting of the Birmingham and Midland Society of Incorporated Accountants and the Chartered Institute of Secretaries by

**Mr. H. SOMERVILLE SMITH,**  
*Assistant Manager of the Department.*

Mr. SMITH said: I dislike invoking the grisly spectre of bad debts, but what I have to say will lose all its force if I do not remind you that the greatest source of loss in our export trade to-day is precisely the bad debt. I was in Ulster the other day, and at least half the people who came to see me told me that in the last five years' trading they had had no bad debts. I asked them why they came to see me, and they replied that they had received inquiries from various people which might turn into bad debts; and they felt that it was the duty of His Majesty's Government, rather than of themselves, to take the risk.

There, gentlemen, in a nutshell, is what the credit insurer has to face. I shall revert to the point later. I was told here in Birmingham within the last fortnight that the trouble with the Export Credits Guarantee Department was that we would insure only gilt-edged risks. We who are in the business doubt whether such a thing exists nowadays, particularly in export trade. What we do know positively is that in the present penury of trade people who employ labour, and who are conscientious, are forced to take risks which in normal times they would have turned down out of hand. Here in Birmingham to-night I am speaking to a body of realists. You all have close connections with commercial firms. I wonder how many of you could tell me that any firm with which you are connected has had no bad debts over the last five years' trading.

I am no universal doctor. I do not come here to-night to tell you the sure and inevitable cure for bad debts. There is no such thing. What I have to tell you is how you can mitigate the consequences of bad debts so that a firm which takes my prescription can trade freely and confidently abroad in the sure and certain knowledge that, although there may be bad debts, it is protected to such an extent that, on the worst possible hypothesis, it would not incur losses beyond its financial strength. I submit, gentlemen, that such prescription is worth at least your serious consideration.

How do we do it? Let me give you the simplest of examples. Bill Smith of Birmingham receives an inquiry for £500 worth of chains from Monsieur Dupont of Lille on credit terms, say, 90-days bills. He has never traded with Dupont before, but his agent tells him that Dupont's reputation is good and that he is a man of some substance. Smith is still a little doubtful, but he has heard that there is a department of H.M. Government which, for a reasonable premium, will insure him against a substantial share of any loss he may incur as a result of Dupont's insolvency. He accordingly approaches us. We do not know Bill Smith, but within a very few hours are satisfied that he is a sort of person who will carry out his contract scrupulously. Dupont may be on our books already. If he is we say at once whether or not we are prepared to insure his credit and quote our premium. If he is not on our books we employ one or more of our various sources of information and in a short time are in a position to take or decline the risk.

If we quote, and Smith accepts our quotation, we then issue a policy in virtue of which Smith is covered for from 60 per cent. to 75 per cent. of the loss he may sustain from Dupont's insolvency.

We give him more than that. We all know that, in the event of insolvency, it may take years to fix completely the final loss. What we undertake under our policy is to pay out the agreed percentage of the debt as soon as it is admitted to rank against the insolvent estate. We then take over the debt, collect dividends, and divide them between Smith and ourselves in proportion to our respective interests.

This, as I have said, is the simplest of operations. We have insured Dupont's solvency. He has gone broke, and instead of incurring 100 per cent. loss Smith has lost only from 25 per cent. to 40 per cent. If something comes out of the wreck he receives, in addition, his due percentage of the salvage.

The operation may, however, have worked out on other lines, and here I revert to the reproach that we take only gilt-edged risks. Smith may have traded with Dupont for many years, and finally, perhaps because he is a good deal tied up in other directions, has come to us for cover on Dupont. Dupont is on our books and we find that he has been asking for extensions for some time, and that, generally, his position is strained. We decline the risk. Smith may blackguard us. When Dupont goes broke he may have the grace to acknowledge we were right, but there are, alas, many cases where Smith is not in a state of grace. I beg of you, gentlemen, to bear this possibility in mind when we are criticised for our caution.

As a matter of fact I am prepared to defend that caution, and in this audience I should expect to find a good deal of sympathy. Your ideal credit insurance should be done on a 60/40 basis. The exporter must share with the credit insurer in the risk. If it is done on this basis the credit insurer who induces the exporter to take a doubtful risk is culpable.

The simple case I have cited may have been done on bill of exchange or on open credit. It is unnecessary to state here that open credit defines the relationship between most of us and our tailors. I reserve that explanation for other audiences. It may be remembered against us that only a year or eighteen months ago we insisted on bills. Perhaps 50 per cent. of our specific policies now-a-days cover open credit transactions.

But your specific policy is merely tinkering with the problem, at least as far as short term business is concerned. What exporter in his senses, if he is taking out cover on individual names, will bring you those about which he has no doubt whatever? He feels that the premium is simply a gift to the credit insurer, and in these hard times philanthropy is in diminishing vogue. The truth is that if the insurance is on individual accounts only there is a constant selection against the credit insurer. Hence the reproach from the disgruntled exporter that the Export Credits Guarantee Department will take only gilt-edged risks.

We are now issuing a policy which we describe as our Comprehensive Guarantee, and which we believe is eminently fair both to the assurer and the assured. Its mechanism is simple and it is a true insurance policy in that it is based on good faith on both sides. It is more suitable to the exporter who desires to consolidate his existing trade than to the adventurer who, in these days, decides to push into a new market on the recommendation of a new agent. It recognises that some loss from bad debts is inevitable. Its object is to protect the sound trader from a crippling loss.

We assume when we receive an application for this policy that a trader has had a certain amount of bad debts during his trading experience over, say, the previous five years. We ask him to furnish us with a figure of his total export turnover during that period, by years and by countries, with his bad debt figures. We analyse these, determine to what extent they were due to a catastrophe in a given market or to several large individual accounts going wrong, and with this information, and a number of other elements which depend on the trade in the countries concerned, arrive with him at a figure which he would regard as a reasonable loss. We guarantee him against 75 per cent. of the loss in excess of this figure.

Consider what we offer him. He is prepared to stand a reasonable loss himself. When he holds our policy he knows that if every one of his outstanding accounts go wrong his maximum loss will be an additional 25 per cent., less 25 per cent. of dividends. If he does not appreciate the point himself his banker certainly will. Take the case of limited liability companies. Many of you have close connections with such companies in an auditing or advisory capacity. They may be regarded as soulless, but no one will deny that they have a conscience where their shareholders' interests are concerned. For that reason the insurance of credit risks should engage the earnest attention of directors and export managers. Even a dissatisfied shareholder learning again that dividends are passed may be mollified at such signs of forethought on the part of the Board.

We give real service. I am not going to describe in detail to-night the means by which we obtain information. It is sufficient to say that we have sources which are not available to others, and that our net is very wide. It is useful to know before you enter into a sale contract that the buyer is a reasonable risk. It is almost equally useful to be advised during its currency of adverse changes in the buyer's standing so that if necessary further shipments can be stopped or released only against cash. It is better to have early warning if a customer is getting "rocky" than to wait until he is "stony."

Such early warning has a further use. It is our experience that when a man is getting into difficulties it is sometimes possible to collect the debt before he actually goes insolvent. As you know, we have representatives all over the world who are conversant with local legal procedure and can take the best local advice. If their assistance is invoked at a sufficiently early date both the exporter and the Department may be saved loss.

Once the preliminary negotiations are concluded the Comprehensive Guarantee is simplicity itself. Declarations are made on the tenth day of every month of the shipments made during the previous month, and of any accounts or bills to which the policy relates which have remained unpaid in part or in whole for more than 90 days from the original due date. Unlike specific policies, no additional premium is charged for extensions during the currency of the Comprehensive Guarantee, and this rule prevails if it is renewed. When it is not renewed the guarantee is maintained on outstanding accounts for a further twelve months on payment of additional premium at a very reasonable rate. It should be noted, however, that such premium is only payable on overdue accounts.

I do not intend to say much this evening about our information, all-important as it is as the basis of credit insurance. There is one point, however, which must be mentioned, and which is of particular significance in relation to the Comprehensive Guarantee. We all understand the individual risk—the alteration in a man's standing due sometimes to his own mistakes, and

frequently to circumstances beyond his control. What many traders do not yet realise is the paramount importance of the country risk.

It is an open secret that Manchester lost millions in the Brazilian crisis of 1929. We lost a good deal, too, but we saw the handwriting on the wall long before many of the biggest firms in Manchester, and if it had not been for our adamant stand, for which, incidentally, we were very freely blackguarded, Lancashire, and incidentally ourselves, would have lost much more than it did.

The facts there were simple. Brazil, like so many other countries, wanted to encourage its secondary industries. The usual technique was employed. That is, heavy duties on imported piece goods. Unfortunately six months before the decree increasing the duties came into operation its provisions were known, and before the end of that six months warehouses and Customs houses were groaning with a sufficiency of piece goods to clothe the whole population for years ahead. Later on in 1929 coffee prices began to sag. Credit was tight. Buyers in the country couldn't take up the goods, and by the end of 1929 not only warehouses and Customs houses were groaning, but the wholesale importer and his supplier in Manchester were groaning even more audibly.

That is the sort of thing that happens everywhere. A department like ours is better placed than any other body—and I say this in the full consciousness that I am making a large claim—to follow economic and financial tendencies the world over. If, then, we find that the holder of one of our Comprehensive Guarantees is trading largely in a country where the danger signals are becoming visible, we can tell him frankly, and in confidence, what we know, and work out a plan of campaign together. It is a service which is very well worth while. I am convinced of it.

And now let me turn to another of our activities. It is a commonplace among economists and financial people nowadays, and a source of great concern to the heavy industries, that facilities for financing credits from one to five years are less developed in this country than they are abroad. Let us take a typical case. A foreign municipality invites tenders for a hydro-electric plant—price, say, half a million. Our foreign competitors have a habit of offering anything up to ten years' credit. It is clear, however, that the plant should pay for itself in half that time. We are approached, look into the proposition, appoint, if necessary, a consulting engineer because we are not technicians, examine the proposal from the point of view of the credit risk, i.e., the reputation of the municipality for meeting its obligations, its budgetary position, general conditions in the country in which it is situated, and the power of the existing council to bind its successors in office, and so forth. We make an offer on the basis of five years' credit. As security—this is purely hypothetical, of course—we may have municipal bonds secured on the gross revenues of the municipal electricity company and guaranteed by the Government or by the State Bank. This may seem to you to be gilt-edged, but if that is your view I suggest that you try to raise finance in the City on such a proposition.

The whole situation, however, is altered if we consent to guarantee a proportion of the transaction. The banker then has the tangible guarantee of 60 per cent. to 75 per cent. of the purchase price. He agrees to finance it, and because of our guarantee the order comes to this country.

This is a purely imaginary case, but I can assure you that we have done real business for large amounts along these lines.



And now, gentlemen, I shall conclude. My sole object has been to arouse your interest. We believe that we can render invaluable assistance to the export trade of this country, but we can only do so if exporters themselves are sufficiently interested to see how their particular business can be fitted into our scheme. I shall be happy to answer any questions now, but, as you know, questions and answers at a public meeting are never very satisfactory. Mr. Trump of the Department attends the Chamber of Commerce every Tuesday by the courtesy of their Council. He will always be happy to discuss any and every aspect of Export Credits with anybody who cares to make an appointment.

## Incorporated Accountants' Students' Society of London and District.

### Syllabus of Lectures and Discussions.

1933.

- Feb. 21st. "The Most Tragic Book-keeping in History," by Mr. Leonard J. Reid, City Editor, *Daily Telegraph*. *Chairman*: Sir Stephen Killik, J.P. (President of the Society).
- Mar. 1st. "Accounts from Incomplete Records," by Mr. R. A. Fricker, Incorporated Accountant. *Chairman*: Mr. G. Roby Pridie (Vice-President of the Society).
- Mar. 7th. "Property of the Bankrupt which Passes to the Trustee," by Mr. Oswald Griffiths, M.A., LL.B., Barrister-at-Law. *Chairman*: Mr. D. Mahony, Incorporated Accountant.
- Mar. 14th. "How to Detect Errors where Accounts do not Balance," by Mr. W. J. Back, Incorporated Accountant. *Chairman*: Mr. William Strachan, Incorporated Accountant.
- Mar. 21st. "Computation of Profits for Income Tax," by Mr. J. S. Scrimgeour, O.B.E., Barrister-at-Law. *Chairman*: Mr. H. E. Coleworthy, Incorporated Accountant.
- \*April 25th. "Accountancy Methods as a Factor in the Economic System," by the Right Hon. Lord Melchett. *Chairman*: Mr. Richard A. Witty (President of the Incorporated Accountants' London and District Society).

The meetings will be held at Incorporated Accountants' Hall, Victoria Embankment.

\* Meeting of the London and District Society, to which members are invited.

## Incorporated Accountants' Benevolent Fund.

The Incorporated Accountants (Masonic) Lodge has resolved to increase its donation to the Fund from ten guineas to twenty-five guineas for the current year. Mr. A. A. Garrett has also presented a debenture for £25 in addition to a similar gift of the value of £50 which he made in 1931.

## PUBLIC AUDITORS.

The following Incorporated Accountants have been gazetted in a supplementary list as Public Auditors under the Friendly and Industrial and Provident Societies Acts, in addition to those whose names were published in our February issue:—

Marshall, R. N., 109A, Mortimer Street, Herne Bay.  
Yates, J., 11, Mill Street, Warrington.

## Incorporated Accountants' Society of Manchester and District.

### ANNUAL DINNER.

The Incorporated Accountants' Society of Manchester and District held its 47th anniversary dinner in the Midland Hotel, Manchester, on February 13th. Mr. JOSEPH TURNER, F.S.A.A. (the President) was in the chair, and among those present were the Mayor of Salford (Councillor J. F. Emery, J.P.), Mr. E. Cassleton Elliott, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors), Mr. Richard Dobson (President, Manchester and District Bankers' Institute), Mr. B. Bruce Johnston (Agent, the Bank of England, Manchester), Mr. P. Forrester (Managing Director, Union Bank of Manchester, Limited), Mr. B. Mouat Jones (Principal, Municipal College of Technology), Mr. J. Walter Robson, J.P. (President, Manchester Law Society), Mr. W. Cunliffe (Joint General Manager, District Bank, Limited, Manchester), Mr. F. E. Todd (H.M. Principal Inspector of Taxes), Mr. J. Broatch (Editor, *Manchester Guardian Commercial*), Mr. E. J. Bowerbank (Manager, Lloyds Bank Limited, Manchester), Professor Fred Hall, M.A., Mr. Henry L. Marsden, LL.M. (Principal, Municipal High School of Commerce), Mr. Reginald Pierpoint (Chairman, Manchester and District Branch of the Auctioneers' and Estate Agents' Institute of the United Kingdom), Mr. A. A. Garrett, M.A. (Secretary, the Society of Incorporated Accountants and Auditors), Mr. John E. Bray (City Treasurer, Manchester), Mr. Herbert Sutherst (Hon. Secretary, the Manchester Society of Chartered Accountants), Councillor Godfrey Craven (Vice-President, Incorporated Accountants' Society of Manchester and District), Mr. F. N. Walker (Manager, Midland Bank Limited, Manchester), Professor G. W. Daniels, M.A. (Dean of Faculty of Commerce of Manchester University), Mr. R. Kynoch Clark (Official Receiver in Bankruptcy), Mr. H. Saxon (Chairman, Manchester Branch of Chartered Institute of Secretaries), Mr. B. Simpson Duthie (Hon. Secretary, Cumberland and Westmorland Incorporated Accountants' District Society), Mr. G. A. Ridgway (President, Incorporated Accountants' Hull and District Society), Mr. Alexander Hannah (President, Incorporated Accountants' District Society of Liverpool), Mr. Tom Revell (President, Incorporated Accountants' District Society of Yorkshire), Mr. S. I. Wallis (Hon. Secretary, Incorporated Accountants' District Society of Nottingham, Derby and Lincoln), Miss P. E. M. Ridgway, B.A., Mr. D. T. Boyd (President, Incorporated Accountants' Belfast and District Society), Mr. Edmund Lund (President, Cumberland and Westmorland Incorporated Accountants' District Society), Mr. W. H. Stalker (President, Incorporated Accountants' Newcastle and District Society), Mr. J. W. Richardson (Hon. Secretary, Incorporated Accountants' District Society of Sheffield), Mr. A. H. Crumpton (Hon. Secretary, Incorporated Accountants' Hull and District Society), Mr. Arthur E. Piggott (Hon. Secretary, Incorporated Accountants' Society of Manchester and District) and Mr. Halvor Piggott (Assistant Hon. Secretary).

Mr. JOSEPH TURNER (the President), proposing the toast of "Commerce and Finance," said he did not think there ever was a time when the topic received greater public attention. In Lancashire, when they thought of commerce and finance the mind flew to cotton, but they must not forget that engineering and coal were well represented in the county. (Hear, hear.) Furthermore, from a recent survey it would appear that new industries

were growing as quickly, if not quicker, in that area than elsewhere. Lancashire would naturally welcome new industries and could offer unrivalled facilities as regards skilled workers, power and transport. With reference to the cotton trade, he thought they could say that the past year had shown some slight improvement, and it was to be sincerely hoped that a further advance would be made. He was glad that the cities of Manchester and Salford were to be spared an increase in rates, but he understood that both cities had had to exercise the greatest ingenuity in avoiding an increase. It did appear to him to be iniquitous that they had to pay out large sums of money annually as a local charge for expenditure which, in his opinion, should be a national charge. (Applause.) He particularly referred to poor relief. Then there was the question of economy. He noticed a few days ago that Sir Herbert Austin said he was afraid years of advocacy by successive Governments had imbued the public with a spirit which was likely to result in economy being overdone. One school of thought said "Spend" and another school said "Don't," but still they failed to find a solution to the problem of unemployment. They now had the suggestion that a five-day week plan would be the solution. He was brought up to believe that the harder one worked the greater would be the reward, but he certainly would not disregard the suggestion of a five-day week without first of all closely examining it, because no effort should be spared and every avenue should be searched to try and solve this problem. (Applause.)

Councillor J. F. EMERY (Mayor of Salford), responding to the toast, said that while he joined with the mover in the hope that commerce and finance would progress and see better days very quickly, he was not too sanguine that they would reach those desirable times without some radical and sweeping change in the methods or system by which their commercial and social lives were governed. (Hear, hear.) It could not be said that a system which allowed its man-power to go to waste—as had been the case in the country for some years—which had contracted the markets for its commerce, and which incidentally was the cause of overwhelming taxation, was functioning satisfactorily. At one time it could be said that commerce and finance were happily wedded, that they were both proceeding along definite lines of progress, helping each other and serving to create social well-being and contentment, but to-day they were definitely divorced and occupied the rather impossible position of parent and child, the bankers being the very stern parent and commerce the child. (Laughter.) Commerce in the post-war years had covered itself with glory, but it could only be said that the field of finance had become a morass of despair. Sir Arthur Salter suggested in Manchester only a few days ago that all that was necessary was for the demand for money to be stimulated and one way of doing that would be for the local authorities to embark upon schemes of capital expenditure. That particular remedy had been tried long ago and it had proved a failure. It was bound to be from the commencement. No municipality with high rates had the right further to mortgage the earnings of its people unless those responsible for the moulding of the financial policy of the country laid down clear and well-defined measures that would provide a fair deal to those who adopted them. The lack of such a policy was the chief reason for the high deposits being in the banks to-day. Money was always nervous, and not until it was certain that it would flow in the normal channels without interference or confiscation, and not subject to violent oscillations in value, would it be released for the benefit of commerce. (Applause.)

Mr. R. BRUCE JOHNSTON (Agent of the Bank of England, Manchester), who also responded to the toast, thought that they were just emerging from the slump. There was a more optimistic feeling about. He expected that many of them had read the industrial survey which had been brought out by the University of Manchester at the request of His Majesty's Government. He thought that survey started with the assumption that Lancashire could not hope to do better than in 1929 before the American crisis came. To get to that point from where they now were was a long weary journey, but he thought one of the principal ways of achieving it was to encourage new industries. The Lancashire Industrial Development Council had made a suggestion which was rather startling in a way, but one which he thought deserved a lot of consideration. It was a suggested way of help in the initial stages when employees had been taken on who did not know the work. They had a lot of skilled operatives in Lancashire who could adapt themselves to any industry, and it was suggested that they should be taken from the ranks of the unemployed and during the initial stages, when they were learning the work, the Government should pay half the dole they had been receiving and so enable the new industries to start with less overhead charges. (Hear, hear.)

Mr. RICHARD DOBSON (President of the Manchester and District Bankers' Institute) proposed the toast of "The Society of Incorporated Accountants and Auditors, its Branches and District Societies," and said he was particularly pleased to do so because of the dignity and spirit of the body as evidenced by the Parent Society, which had as its headquarters in London one of the most beautiful buildings which London could show. (Applause.) If that beautiful building was the keynote of the Society all would be well with it. Speaking as a banker, he said that Incorporated Accountants were people to whom they looked as helpers, friends, and co-workers in their life's business, which was to try to keep steady and safe so far as in them lay the affairs of workers—that was, the men of commerce and manufacture. He wanted to express on behalf of the banks testimony to the value of the help which the Society gave them. Just as their ideals were high and their knowledge was expert, just so much did they help not only the banks, but also commerce and industry. The measure of their value was their high level of efficiency and, perhaps before that, their high level of character. How much did it help the bankers when a client brought a balance sheet and they saw at the bottom the name of a member of the Society of Incorporated Accountants? It did mean something to them. It meant that that document was signed by a man who believed it was correct. (Applause.) He had known an accountant—he would not say a member of that Society—say that he signed a balance sheet but for his client's own purpose and in his own private ledger. Now if a man brought them a private ledger and the signature of an accountant was on it, rightly or wrongly he, and he thought most bankers, would say it was prepared for all the world to see it and that the accountant stood by it as a true account. There was no difference between a certificate to be used by a client and a certificate to be shown to all the world. Now he would like, if he had the time—and that was neither the time nor the place—to answer some of the criticism which fell from the lips of the Mayor of Salford against those who controlled their finances. Things after the Napoleonic Wars were many times worse than they were to-day. At least 250 English banks failed and the wages of the weavers fell from 20s. before the war to 4s. 6d. afterwards. Men wandered in crowds up and down England, all but starving, but the country survived it



and he firmly believed they would survive this. With Mr. Johnston he thought—he was rather shy of saying it—that they might have touched bottom. In any case he did devoutly hope that the time when they would emerge from the troubles which visited so many of their fellow men would not be too long delayed. (Applause.)

Mr. E. CASSLETON ELLIOTT (President of the Parent Society), in responding to the toast, said he thought Manchester was the oldest District Society, and they had as one of their members the Senior Past President—who was unfortunately unable to be with them that night—Mr. Walmsley, a man whom the Council revered and loved. They also had in Mr. Piggott the Senior Secretary of District Societies throughout the country. (Applause.) They were delighted to see him with them and glad that he was able to delegate his duties to his son, who carried them out so well. (Hear, hear.) Mr. Dobson had referred to their Society as one of high standing and had referred to the dignity of the building in London they had acquired a few years ago. He had also stated that he had passed that building many times, and he was going to give an invitation to him on behalf of the Society not to pass it next time, but to see inside. If he was not there the Secretary would be only too pleased to welcome him. In 1927 it was his privilege to read a paper in Manchester before a Conference of Incorporated Accountants on the accountant's duty to the public. He said that the accountant was not only the servant of his client, but also of the public and of the creditors, and he propounded the theory that whatever the accountant signed was equally for all three sections. Any balance sheet signed by an Incorporated Accountant, in the opinion of the Council, should state the truth, the whole truth and nothing but the truth. There was no difference between a balance sheet prepared in the private ledger for a client and that for the creditor so far as the balance sheet was prepared for a going concern. The Mayor of Salford had mentioned restrictions and quotas and freer trade. They must be careful to avoid too many restrictions in these days. He had been reading about an application before the Railway Rates Tribunal for a variation in the method of railway charges for carriage, and he would quote the following lines: "The underlying principle of the flat rate scheme is quite different from the long-established method of calculating railway charges on a point-to-point ton-mile basis which had been sanctioned for many years by Acts of Parliament. Judgment was given against the method. Whether or not the judgment will be upheld elsewhere remains to be seen, but the fact is that the arrangement has proved to be commercially desirable from the point of view of both industry and the railway companies because it eliminates a great deal of complicated accountancy." They would think that the more complicated the accountancy the more they would desire it as accountants. It seemed to him that the railways' method of charging was cumbrous and out of date, and he thought it was high time the Railway Rates Tribunal amended it. He would also like to see the income tax made much easier. It was quite impossible for the average individual to check his own income tax return or assessment. They might think that he was again speaking against the interests of the profession, but quite seriously it was time the layman could understand his own return. He did not say the taxpayers' view would necessarily agree with that of the inspector, or that the individual would be able to get the allowances the accountant could get for him, but he should be able to check the assessment without any difficulty. As accountants they ought to consider what they could do

towards simplifying these things. They had already assisted materially with regard to income tax; it was certainly simpler than it used to be. The three years average had gone and people knew exactly on what basis the income tax was to be assessed, but there was still a great deal more to be done. A wave of economy had passed over the country. Included in the Budget was a large slice of Revenue devoted to the Sinking Fund and they had to consider, as Sir Robert Horne put it the other day, whether for the next twelve months the Sinking Fund could not be suspended in order to keep down taxation. Nothing would give a greater impetus and fillip to trade than a reduction of income tax. (Applause.) There was another point to which he would like to draw attention, and that was that everybody was talking about reduction of wages. It could go too far. Mr. Elliott felt the best policy was to say to the workpeople, "We will keep your wages as high as we can, but we expect you to give full and free service and not resort to ca'canny methods. If we keep your wages high, we want you to give us all the loyal support you can." Only that day he had been reading the report of the London, Midland & Scottish Railway Company, which showed a reduction in expenditure of two and a half millions in 1932 compared with 1931, and he was delighted to see that only about one-fifth of that was secured through the reduction of wages. He thought it was to the credit of the directors and staff. Speaking generally, he felt sure the country would pull through, and he thought they had reached the bottom of the depression. In conclusion, he thanked Mr. Dobson for his kind words about Incorporated Accountants. They tried to assist bankers in their work and they were delighted to have this recognition. (Applause.)

Councillor GODFREY CRAVEN (Vice-President of the Manchester Society) proposed the toast of "Our Guests," and coupled with it the names of Mr. J. Walter Robson, J.P. (President of the Manchester Law Society) and Mr. B. Mouat Jones (Principal of the Municipal School of Technology, Manchester).

Mr. J. W. ROBSON, J.P., in reply, said accountancy was a sister profession to the law, and they had worked together, as they always hoped to do, on very friendly terms. Lawyers at any rate felt that accountants were a tremendous help to them in almost all branches of their business. Lawyers had to learn something about figures, or were often taught a good deal about them by accountants. A Bill which was to have been introduced into Parliament had a clause to the effect that no solicitor should be allowed to take out a certificate to practice unless he could produce a certificate by a Chartered Accountant or an Incorporated Accountant that he had had his books duly audited during the previous year. That seemed to the lawyers to be like wholesale endowment of accountants. He thought there were very few members of his profession who did not have their accounts audited in the usual way, but the principle was one the lawyers could not agree to, and so the Bill was dropped. It had been said that a great deal of money was locked up in mortgages at the present time, and owing to the state of legislation it was impossible to call these mortgages in. He believed that if the restrictions on the calling in of mortgages were lessened it would help the provision which could be made by local authorities for the removal of every slum area. It was a standing disgrace that they should have such areas when countries much less wealthy, like Germany and Austria, had done wonders in the removal of slums in all their big cities. Furthermore, the provision of working-class houses at an economic rent of from 8s. to 10s. was

proceeding far too slowly. That was one thing which they as lawyers were very much interested in, and he thought they could do a great deal to help it along. (Hear, hear.)

## ROYAL NAVAL RESERVE.

(ACCOUNTANT OFFICERS.)

### Sixteenth Annual Re-Union Dinner.

The R.N.R. (Accountant Officers) sixteenth re-union dinner was held at the Trocadero on February 10th, the Mess President being Paymaster-Commander A. H. Sudell, R.D., R.N.R. Among those present were:—Vice-Admiral H. W. Parker, C.B., C.M.G., Admiral Commanding Reserves; Paymaster Rear-Admiral E. F. Murray, Paymaster Director-General; Paymaster-Commander and Sheriff W. Lacon Threlford, F.C.A., M.B.E., R.D., R.N.R.; Mr. E. Cassleton Elliott, F.S.A.A.; Paymaster-Commander A. A. Garrett, R.N.R.; Surgeon-Lieutenant-Commander M. F. Hopson, R.N.; Paymaster-Commander C. B. Jarrett, R.D., R.N.R.; Paymaster-Commander A. E. Loder, R.D., R.N.R.; Paymaster-Commander T. Martin, R.D., R.N.R., O.B.E.; Paymaster-Commander A. Simon, O.B.E., R.D., R.N.R., A.C.A.; Paymaster-Commander D. M. Mackenzie, R.D., R.N.R.; Paymaster-Commander R. M. Heath, R.D., R.N.R.; Paymaster-Lieut.-Commander A. E. Turner, R.D., R.N., A.S.A.A.; Paymaster-Lieut.-Commander R. J. Hayward, R.D., R.N.R., F.C.A., Hon. Secretary. Paymaster-Lieut. R. J. Pigott, R.N.R., F.C.A.; Paymaster-Lieut. H. F. Martin, N.R., R.N.R.; Paymaster-Lieut. H. Alden, R.N.R., A.S.A.A.; Sub-Lieut. L. S. Argent, R.N.V.R., F.C.A.; Paymaster-Lieut. H. D. Bell, R.N.R., F.C.A.; Paymaster-Lieut. N. Bell, R.N.R., F.C.A.; Paymaster-Lieut.-Commander E. A. Burrows, R.D., R.N.R., A.S.A.A.; Paymaster-Lieut. W. J. Dowdell, R.N.R., F.C.A.; Major B. W. Ellis, D.S.O., M.C., A.S.A.A.; Paymaster Sub-Lieut. C. E. D. Enoch, R.N.R., A.C.A.

After the toast of "The King" and the toast of "Absent Friends" had been honoured, the Mess President proposed "The Guests," to which a response was given by Vice-Admiral H. W. Parker, C.B., C.M.G. Paymaster Rear-Admiral E. F. Murray proposed the toast of "The Royal Naval Reserve (Accountant Officers)," the response being given by Paymaster-Commander A. Simon, O.B.E., R.D., R.N.R. At the conclusion of the proceedings Paymaster-Lieut.-Commander H. F. Martin, M.C., R.N.R., proposed the health of the Hon. Secretary of the Mess, Paymaster-Lieut.-Commander R. J. Hayward, R.D., R.N.R., F.C.A.

## Changes and Removals.

Mr. Clifford J. Andrews, Incorporated Accountant, of 71A, Seamoor Road, Westbourne, Bournemouth, has opened additional offices at 23A, Old Christchurch Road, The Square, Bournemouth.

Mr. T. Rimington, Incorporated Accountant, has removed his offices to 8, Horsefair Street, Leicester.

Mr. S. Coomaraswamy, Incorporated Accountant, has commenced to practise at 69, Chatham Street, Colombo.

Mr. J. C. McIntyre, Incorporated Accountant, has dissolved partnership with Mr. A. W. Scott, and is practising on his own account under the style of Scott & McIntyre, at 65, Maitland Street, Bloemfontein, South Africa.

## ALLEGED NEGLIGENCE OF ACCOUNTANTS.

### No Evidence of Damage.

A claim for damages for negligence, breach of duty and breach of contract (which were denied) against accountants arising out of the preparation of income tax returns, was heard before Mr. Justice Lawrence and a special jury at Liverpool Assizes on February 14th, 15th, 16th and 17th.

Plaintiffs were the executors of the late James Joseph Dunford, fishmonger, who during his lifetime owned a number of shops in the Liverpool district, for whom Mr. G. J. Lynskey, K.C., and Mr. S. C. V. Addinsell appeared, instructed by Messrs. Layton & Co., Liverpool.

Defendants were Messrs. W. F. Ewbank & Co., Chartered Accountants, The Temple, Dale Street, Liverpool, who were represented by Mr. F. P. M. Schiller, K.C., and Mr. P. Vos, instructed by Messrs. Wood, Lord & Co., Liverpool.

Mr. Lynskey said the late Mr. Dunford started the action in November, 1931, but died a few weeks later. He was a man with no knowledge of accounts, and began to employ Messrs. Ewbank & Co. in 1913 under a verbal agreement. A question might arise as to whether they were employed as accountants or auditors, and according to the first account they sent to Mr. Dunford covering their first two years' services they charged for "professional services, including advice as to a system of accounts suitable, drafting same, drafting return sheets and writing up books weekly." Mr. Lynskey explained that the books were made up from takings returns sent by branch managers of the shops, and, with regard to purchases, from Mr. Dunford's bank pass books. As to his balance sheets and income tax returns, Counsel said Mr. Dunford trusted Ewbank completely. Investigation had shown that none of the income tax returns between 1914 and 1926-7 were right.

A bank deposit account which Dunford had had since 1909 was now said to have been concealed from Messrs. Ewbank, but there was an entry by one of their own clerks in 1920 showing a transfer to that account, so that they knew of its existence. From that deposit account there was transferred to his current account in 1923, when trade was falling off, a sum of about £7,000. This was bound to lead to inquiry by the Income Tax Authorities, and those inquiries lasted for six years, the Inland Revenue finally claiming in 1931 £12,300 arrears of tax, and £6,500 penalty. At that date Dunford's entire resources were about £13,000, and the authorities eventually accepted £12,000, practically all he had. It was contended against Messrs. Ewbank that, had they done their duty and kept the accounts properly, the tax assessments would have amounted to far less than £12,000, and, of course, penalty and additional expenses would not have been incurred.

One of the allegations for the plaintiff was that Messrs. Ewbank "failed to check and/or verify items charged against profits, and charged moneys paid out in respect of betting losses and doctors' bills against the profits of the business." Pointing out that profits made in betting by an ordinary business man did not contract tax, Counsel said letters in existence showed Messrs. Ewbank knew that Dunford was betting and making very large profits on betting. One letter, in fact, said the deposit account of £7,500 was largely, if not entirely, made up of Dunford's betting winnings. Letters written by Messrs. Ewbank referred to two occasions on which the winnings were £1,000 and £900, and mention was



also made of his betting profits amounting to £3,000 in three months. Counsel also drew attention to the fact that payments to bookmakers by cheques drawn from his business account were not always entered in the books as drawings on private account. Sometimes they were entered as purchases and sundries—evidence of negligence, Counsel argued, and showing that the accounts could not have been vouched.

Payments into the bank in one year exceeded the actual takings of the business by £10,000, in another year by £9,000, and in a third year by £10,000, and it should have been apparent to the accountants that income other than that from the business was going into the bank—income derived from betting which was not liable to tax. The final Inland Revenue assessment of profits between 1914 and 1926 was over £31,000, an increase of something like £22,000. Messrs. Ewbank had been paid fees of 100 guineas a year for work which, Counsel submitted, was wholly useless as a result of their negligence. He also complained of the length of time occupied by their investigation after the Income Tax Officials first queried the accounts, and stated that they ought to have been concluded within twelve months.

By their defence, said Mr. Lynskey, Messrs. Ewbank set up that they were only bound as accountants to act upon data supplied to them by Dunford, that they were not bound to make inquiries, that Dunford wilfully concealed information from them for the purpose of evading payment of income tax, and they also pleaded the Statute of Limitations.

Mr. Frederick Gilbert, Inspector of Taxes, and a member of the Inquiry Branch of the Inland Revenue in London, giving evidence on behalf of the plaintiffs, said he attended on subpoena, but the Board of Inland Revenue had considered the facts of the case and had not claimed privilege. In reply to Mr. Lynskey, he said he commenced his duties in Liverpool in June, 1927, but the case of Dunford was already in the office then, inquiries having been first set on foot by his predecessor in July, 1924, in consequence of a sum of £7,422 being introduced into the 1923 balance sheet as additional capital. The matter was left over for a time, and in January, 1928, he had an interview with Mr. Smith, of Messrs. Ewbank & Co., and told Mr. Smith it was desirable that he (witness) should see Mr. Dunford. Mr. Smith agreed it was obvious the accounts Messrs. Ewbank & Co. had prepared were not complete. Eventually, in May, 1928, the witness had an interview with Mr. Dunford and Mr. Smith. Mr. Gilbert said he had formed the view at that time that there had been incorrectness in the returns and accounts. He told Mr. Dunford that he appeared to have been under-assessed, and gave him certain warnings, and Mr. Dunford said he was anxious to have the matter cleared up immediately. He (witness) then agreed with Mr. Smith that comparative statements of capital wealth should be prepared, covering the years from 1910 to 1928. Mr. Smith said that pressure of work was not so pronounced as it had been, and he thought he could get those statements out within a month. Mr. Gilbert added that Mr. Dunford, at the interview, said that, so far as he knew, the books from which the accountants had prepared the accounts contained full particulars of all the takings, but there had been some fish deals at Fleetwood which he had not considered liable to tax. He also said he had been very successful in betting transactions.

With reference to the income tax returns and the accounts, Mr. Gilbert said he could not say whether Mr. Dunford or Messrs. Ewbank sent in the returns, but the accounts were invariably sent by Messrs. Ewbank.

The only occasion on which Mr. Dunford's signature appeared on the accounts was in 1918, when he signed a certificate on the Profit and Loss Account, "I certify that the above account contains a complete record of my trading transactions, and in my opinion the balance shown represents my trading profits." In 1918 and 1920 Messrs. Ewbank certified the balance sheet as follows: "We certify the above is a true and correct copy of the accounts submitted to our client." In 1925 and 1926: "We certify that the above account and balance sheet are correct according to the information given us and as shown by our client's books." Mr. Gilbert went on to say that he had an interview with Mr. Smith in November, 1929, and told him that in his (Mr. Gilbert's) opinion the statements of wealth submitted were not complete, and suggested that perhaps the case required a specialist accountant. Mr. Smith said he did not like back-duty work. He (witness) then insisted on seeing Mr. Ewbank, and had an interview with Mr. Ewbank in the same month, putting all the facts before him. Mr. Ewbank refused to entertain the suggestion that the case should be handed over to another accountant, and said he would give his personal promise to have the case gone into very thoroughly, and a summary of investigation sent to Mr. Gilbert. That summary was received in March, 1930, but he was not satisfied with it. Early in June Mr. Smith informed witness that Mr. Dunford had disclosed to Messrs. Ewbank a further banking account. Witness told Mr. Smith it was a serious matter, because at a previous interview Mr. Dunford had stated there were no more banking accounts. It was found that several investments that Messrs. Ewbank had thought were purchased from cash had in fact been purchased through this hidden banking account. Witness asked for another summary, which he received in June, 1930, together with the bank pass books. On these he made calculations which showed that there had been unpaid income tax of £5,200, excess profits duty £6,300, and super tax £900. Calculating the interest on the unpaid sums at 4½ per cent. compound, that made an approximate sum due to the Authorities of £19,000. Following upon a demand for that sum, interviews took place with the accountants, Mr. Dunford and the latter's solicitors, Messrs. Layton, and it was decided to look further into the books. In particular, the bank withdrawals book was examined, and he was surprised to find payments to bookmakers were analysed as business expenses or business purchases. In some instances they were shown as "Private."

Mr. Justice Lawrence: I suppose he would not have had a receipt from bookmakers? Bookmakers do not give receipts.

Mr. Lynskey: No, my Lord, but there would have been a receipt for a fish purchase.

There was nothing in the books which related to a bank deposit account.

Cross-examined by Mr. Schiller, Mr. Gilbert said he assumed that in the case of fish shops the takings took the form of cash across the counter, and there would be no record unless there was a cash register or similar system. He admitted that it would be easy for a dishonest manager, or even a customer, to take cash from a shop without the loss being apparent. In reply to a suggestion that the Inland Revenue knew all along that Messrs. Ewbank were merely sending in accounts from information supplied by Mr. Dunford, witness agreed. He also agreed that neither the Inland Revenue Authorities nor Messrs. Ewbank could have known of a deposit account at the bank unless Mr. Dunford chose to tell them.

Mr. Schiller: The only certificate which certifies that the accounts are a complete record of trading transactions, and that the balance shown represented the trading profit, was the one signed by Mr. Dunford himself?—That certificate was signed by Mr. Dunford. I cannot from memory tell what all the others were.

You can take it from me they are none of them in that form, or anything like it?—Possibly not.

You left Mr. Smith to make the investigations, but it was from Mr. Dunford that the information was to be obtained?—Precisely.

Questioned with regard to money from the takings being lost by Mr. Dunford at betting, the witness agreed Mr. Dunford was the only person who would know about it.

Mr. Schiller: When you asked Mr. Dunford to sign a certificate that the disclosure was complete, you realised that he was possibly not giving Messrs. Ewbank all the information?—I agree.

He told you that there were no more banking accounts, and never had been?—Correct.

That was a downright lie?—I agree.

In reply to further questions, witness agreed it was obvious in June that Mr. Smith had been deceived by Mr. Dunford. When the amount due for tax was finally computed an allowance of £1,000 was made in respect of betting winnings. In demanding £12,500 for unpaid tax, he was of the opinion that Mr. Dunford had been fairly dealt with. At the time of the interview with the solicitors there was a doubt even then as to whether the Income Tax Authorities had obtained a full disclosure. Mr. Dunford, however, said he was conscious of the fact that excess profits duty was outstanding, and he wanted to have the whole position cleared up. When they came to investigate the position as to excess profits duty and the pre-war standard, it became apparent that all previous returns made by Mr. Dunford were hopelessly inaccurate.

Mr. Frederick Allan Rice, formerly Inspector of Taxes at the Inquiry Branch, London, and now Senior Inspector in Scotland, said he began to take part in the investigation of Mr. Dunford's affairs in 1930, as it was felt that further investigation was required. The main point of inquiry was as to whether there was not still another bank account in existence after the second one had been disclosed. He attended the interview referred to, and had a discussion with Mr. Smith as to the preparation of the accounts. "I asked him if he took any steps to ensure the accuracy of the returns prepared by himself, and he replied that each year he asked Mr. Dunford whether there was any deposit interest. I asked him if he had a definite recollection of putting that question to Mr. Dunford. He said he had not, but that it was his practice each year to ask each taxpayer if he had any deposit interest. He went on to say that he always tried to check the information given to him. I expressed some surprise. I told him I could not understand a Chartered Accountant forgetting the existence of a deposit account to which he had recently made an entry, nor could I understand how he could make a reference to a deposit account without in fact calling for and seeing that deposit account." Mr. Smith went on to say that his recollection of first seeing the deposit account was in 1924. He was under the impression Mr. Dunford said the origin of the money was betting. Mr. Dunford, who was present at the interview, was asked about it, and he said: "I cannot be certain whether the deposit account was known or mentioned to Messrs. Ewbank before 1924. I am positive that Mr. Smith did not tell

me that I had not returned this interest and should return it."

Witness said he then referred to another entry as far back as 1923, relating to a cheque on the second hidden deposit account, and said he told Mr. Ewbank that he could not understand how an investigation could have been conducted without bringing that to light, unless the client's statements were accepted without check. "I told him that it seemed to me that had ordinary care been taken in the conduct of either the first or second investigation by his firm, it would not have been possible for his client to have concealed the second deposit account." When another point came up, witness asked whether there was still another bank account not disclosed, and Mr. Dunford replied: "I have never had any bank account which you do not know about." Witness said he drew Mr. Smith's attention to five cheques to a bookmaker which had been charged as purchases, whilst other similar payments had been treated as drawings, and told him it was disturbing to find that accounts had been submitted by a firm of Chartered Accountants—containing errors of that nature. He eventually asked for the accounts to be revised.

In cross-examination by Mr. Schiller, witness would not agree that he was expecting Messrs. Ewbank to ferret all these matters out for the benefit of the Inland Revenue. Asked if there was any reason why an accountant should not accept a statement made to him by a client, Mr. Rice said he thought the accountant was expected and understood to take some steps to check the statement.

Mr. Justice Lawrence: Surely in ordinary circumstances he is entitled to expect that the man, whose servant he is, is telling him the truth?—Possibly, in ordinary circumstances, my Lord, but I think by this time the case had gone beyond the ordinary stage, because he was not auditing in the ordinary sense; he was investigating.

Mr. Schiller: Are you really saying that Mr. Ewbank, who was being employed by Mr. Dunford, was under a duty to act as detective, to see whether his client was telling the truth or not?—I do not use the word "duty." I simply say that Mr. Ewbank is a Chartered Accountant, and I understand was engaged to conduct an investigation, and I consider that he should have taken all reasonable steps to ensure the accuracy of the statements submitted.

Mr. Rice agreed that Mr. Dunford said he resold in the market some of the fish supplies he bought for his shops. Witness did not know, however, whether it would be for cash, or whether he paid that money into his business.

Then how on earth was poor Mr. Smith to find out?—He was many years nearer the event.

By the time it got to you, you had satisfactory evidence that Mr. Dunford had been defrauding the Revenue?—We were satisfied that he had underpaid his taxes.

Mr. Schiller: You were, at any rate, sufficiently satisfied to charge him to the extent of £12,000.

Mr. Richard Caton De Zouche, senior partner in the firm of Wilson, De Zouche & Mackenzie, Chartered Accountants, Liverpool and London, was asked by Mr. Lynskey if the bank withdrawals book could have been entered satisfactorily by an accountant without inspecting vouchers. He said it could not be satisfactorily analysed into the various columns of expenses without doing so. If the accountant was instructed to write up accounts from which trading results of the business were to be prepared, the allocation should be checked with vouchers. To write up merely from the counterfoils of cheques



would not establish the accuracy of analysis. If the withdrawals book had been vouched, he could not understand how items payable to bookmakers and personal drawings should be included as purchases of fish and sundries. If there were vouchers and if they had been inspected, they would have revealed the true nature of those items. Asked about betting, the witness said if a client had numerous betting transactions, he would advise him to keep a separate account of them or, at least, keep records of them. In the preparation of an income tax return he would inquire as to bank interest, and would suggest that the pass book should be exhibited in order to ascertain the correctness of that interest.

Mr. Schiller, in cross-examination, put to the witness the dictum of Mr. Justice Astbury that two forms of certificates which accountants give are (1) an audit certificate stating that the accounts reflect the true position of the business dealt with, and (2) a certificate that treating the books as made up for what they are worth, the accounts reflect and only reflect the position of the business as shown in the books. "The latter is the certificate which is given by the person who is doing accounting work in the shape of writing up the books for somebody and preparing balance sheets and profit and loss accounts for somebody who either does not want or is incapable of doing it himself."

Mr. De Zouche said this was a much lesser view of an accountant's obligations than he had always attached. If an accountant was instructed to write up certain records and from them to present the results of a business, he used some effort to see that the records were such as were likely to give him the results. If they did not take him so far, he indicated that in his report.

That is only if he is asked to give a statement which is meant to show that the books correctly represent the business?—No; I think if he is asked to write up the accounts of the business he is asked to record all the transactions of the business in those accounts.

Of which information is given to him?—Well, that is a limitation which I personally would put on record upon the accounts and in a letter to my clients.

He agreed that if his instructions were to confine himself to what was placed in front of him by his client, an accountant was acting quite properly in carrying out those instructions.

Mr. Justice Lawrence: Would you say "I think an accountant would naturally ask for vouchers unless there was a special arrangement"?—Yes.

The accounts carried with them the accountant's reputation, but he agreed that in writing up books the accountant must depend to a very large extent upon the information given to him by his client. In regard to the bank withdrawals book, the counterfoils of cheques, if they were accurate, were all that were necessary for writing up the book, and if the accountant's instructions were to write up from the counterfoils, he was acting quite properly in doing so. He agreed that it would be no part of an accountant's duty to suspect his client of dishonesty.

And similarly with regard to the bank deposit books. If the accountant asks his client, "Have you got any bank deposit interest?" and the client says "None," the accountant is not bound to investigate it?—No, he can do no more.

It depends on how far the accountant thinks he can trust his client. If he thinks he is a trustworthy man, is he not entitled to accept his word?—I must always refer myself back to the instructions under which I am

working. The question of trust does not arise directly in my mind.

Mr. Justice Lawrence: If you do doubt your client, he is apt to alter his instructions and say "Take yourself off."

Answering Mr. Lynskey, Mr. De Zouche said it was not the practice for an accountant to sign a balance sheet without a full audit.

Mr. Schiller: Supposing he left it unsigned and wrote a letter saying "Herewith I enclose balance sheet, profit and loss account, which I have made up from the books," and signed the letter, it would be just the same thing?—No; I do not agree with that.

That is because you are used to thinking about these things going out to the public?—That may be the origin of it, but I am certainly very clear on my view as to the effect.

Mr. Ernest Wesley Bond, Chartered Accountant, Lord Street, Liverpool, gave evidence as to how the income tax demand for £12,000 was made up, and also expressed agreement with the evidence of Mr. De Zouche. If he were called upon to deal with an item of deposit interest he would call for the pass book.

On the conclusion of the plaintiffs' case, Mr. Schiller submitted that there was no case for him to meet either in law or in fact. Stripped of its frills, the plaintiffs' case was this: "I employed you as my accountants upon terms which were left completely vague, amongst other things to keep my books and prepare revenue accounts. You kept my books and prepared my revenue accounts and omitted therefrom items of revenue which I ought to have disclosed to the Taxing Authorities. Although I knew them and fraudulently concealed them, you did not prevent my committing that fraud, in consequence of which, when the Revenue Authorities discovered the fraud they made me pay what was justly due from me to the Crown. Therefore I have suffered that damage from your negligence."

That was an impossible case, asserted Mr. Schiller. Amongst other things, plaintiffs were really alleging Dunford's own turpitude as the foundation of the claim—a thing that the law would never permit. In order to make out his case, Dunford, had he been alive, would have had to go into the box and say, "I was at a later date brought to book for my frauds against the Revenue. Because you did not prevent them I am going to claim against you the amount due from me to the Crown in consequence of those frauds"—an impossible cause of action. The answer to it was that, even on the assumption of the grossest possible negligence, Dunford had only had to pay that which he ought to have paid if he had made a full and proper disclosure of his revenue, namely, £12,000. It was quite clear he was defrauding the Revenue by concealing sources of income about which he knew, but about which the accountants did not know and could not know.

Mr. Justice Lawrence: It is equally consistent with the evidence that sums which went to the deposit account were taken by the deceased from his takings before the accounts of those takings were sent to the accountants.

Mr. Schiller: Yes. We know nothing about that. After all, a gross charge is being made against professional gentlemen of repute, and one expects at least that there should be clear and cogent evidence against them. There is no evidence here that they were wanting in their duty towards Mr. Dunford. In what respects have Messrs. Ewbank been guilty of breach of duty? I confess I never recollect a case in which somebody brought a charge against professional gentlemen and said: "You have

been guilty of a breach of duty and breach of contract," and then was unable to give any particulars of any kind either of the contract or the duty or the terms of the employment.

Mr. Justice Lawrence thought the communication of 1914 might indicate to some extent the terms of employment. They were to prepare accounts for assessments, and that would entail a check of the client's statements.

Mr. Schiller replied that it depended upon what the instructions were, and no proof of those instructions had been submitted. They had to be proved before breach of duty could be alleged.

Mr. Justice Lawrence expressed the view that the jury might infer what the contract was.

Mr. Schiller: Quite apart from that, even assuming contract and assuming negligence, there is no damage.

Mr. Justice Lawrence: That seems to me to be the strong point.

Mr. Schiller: There is no damage, but further than that there is no evidence of any breach, and not the smallest evidence of any negligence.

Mr. Lynskey stressed the point that had the betting winnings been separated in the accounts they would not have been subjected to tax.

Mr. Justice Lawrence: Then I say, "Show me that they were betting transactions," and you cannot. Mr. Dunford having said that he made large sums by betting does not prove his exemption from tax. Dunford, he added, had only paid £12,000, which was the amount of the tax and not the penalty.

After further argument, Mr. Justice Lawrence ruled against the plaintiffs. He found there was no evidence of further damage to go to the jury, and gave judgment with costs in favour of Messrs. Ewbank.

## Reviews.

**Palmer's Company Law.** 15th Edition. By A. F. Topham, K.C., and A. M. R. Topham, B.A., Barrister-at-Law. London: Stevens & Sons, Limited, 119/120, Chancery Lane, W.C. (784 pp. Price 25s. net.)

This is an important publication covering the whole field of Company Law, including liquidations. Some of the matters referred to in preceding editions have been more fully dealt with and others added, whilst minor alterations have been necessitated by recent decisions of the Courts. The appendix contains the text of the Companies Act, 1929, the Winding Up Rules and Board of Trade Regulations, a table showing the corresponding sections of the 1929 Act and the earlier Acts, and a similar table dealing with the clauses of the new Table A and the old Table A. There is also a very full table of cases and a good index.

**Digest and Index of Official Reports of Tax Cases.** Second Supplement to 4th Edition. London: His Majesty's Stationery Office, Adastral House, Kingsway, W.C. (360 pp. Price 12s. 6d. net.)

This supplement, which is prepared for the Board of Inland Revenue by Sir Edward R. Harrison, LL.B., formerly of the Inland Revenue Department, Somerset House, incorporates the particulars contained in the first supplement. The book is one which every accountant requires to have at hand as, in conjunction with the main volume, it provides a dictionary of Income Tax cases.

**Multiple Shop Accounts.** By R. F. Daly, A.C.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (182 pp. Price 7s. 6d. net.)

Written specially for the needs of accountants, this book provides guidance regarding the technicalities

of multiple shop accountancy. The author has not considered it necessary to describe in detail the whole structure of multiple shop accounting, but has devoted his attention to the special problems peculiar to these undertakings. The text is supplemented by numerous forms and the explanatory matter is divided under convenient headings such as organisation, cash control at the branches, branch control from head office, variations in system for different types of shops, and a concluding chapter on the subject of audit. The book contains much useful information.

**The General Tariff of the United Kingdom: Law and Regulations.** By A. S. Harvey, of the Customs and Excise Department. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (182 pp. Price 5s. net.)

The author explains that the term General Tariff is adopted to distinguish the new protective duties from the older duties which were designed mainly for revenue purposes. The whole system is fully explained, including the entry and clearance of goods, warehousing, transshipment and exportation, &c. Copies of the official forms are incorporated showing the rates of duty for the various classes of goods. Business men who are concerned with the importation of goods will find in this book the information they require.

**Rates and Rating.** 7th Edition. By Albert Crew and W. T. Creswell, Barrister-at-Law. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (500 pp. Price 12s. 6d. net.)

In this work Mr. Crew deals with all the rating and valuation Acts from 1925 to 1932, as well as the Rating Relief Acts, 1928 and 1929. Following a short historical introduction, Chapter II gives the principal statutes governing rating, and Chapter III summarises the Rating and Valuation Act of 1925, the full text of which, with notes on the different sections, forms the subject of a later chapter in the book. The method of making and levying rates is described, as well as the procedure with regard to appeals and the rating of special classes of property. The text is supplemented by a full table of cases.

**Ranking and Spicer's Company Law.** 6th Edition. By H. A. R. J. Wilson, F.C.A., F.S.A.A. London: H. F. L. (Publishers), Limited, 19, Fenchurch Street, E.C. (468 pp. Price 10s. net.)

The authors explain that the previous edition of this work was published just as the Companies Act, 1929, came into operation, and some alterations have been made in the text as the result of subsequent experience of the working of the Act. The whole of the matter has also been re-set with the object of improving legibility. In this as in former editions, only the law relating to the formation and operation of companies is included, and not matters relating to liquidation.

**Ivar Kreuger.** By George Soloveytschik. London: Peter Davies, 30, Henrietta Street, W.C. (196 pp. Price 5s. net.)

Many stories concerning Ivar Kreuger have circulated since his death and Mr. Soloveytschik in this book terms these stories the "Kreuger Legends." The author helps to dispel many of them, and also gives a most interesting account of the life of a man possessing an extraordinary personality. The conclusion arrived at by Mr. Soloveytschik is that "to see Kreuger only as a crook and to overlook his outstanding organising genius is not only unjust, it is simply a deliberate misrepresentation." For our part, with the report before us of Messrs. Price, Waterhouse & Co., relating to the affairs of Kreuger, we can hardly be expected to regard this man's dealings with the same leniency as the author.



## Some Aspects of Group Finance.

A LECTURE delivered before the Incorporated Accountants' London and District Society by

Mr. ROBERT ASHWORTH, F.C.A., F.S.A.A.

The chair was occupied by Mr. RICHARD A. WITTY, President of the London and District Society.

Mr. ASHWORTH said: When asked to prepare a lecture for you to-night on "Group Finance" I found the problem of where to begin and where to end so formidable that I decided the most I could do in one evening would be to deal only with "Some aspects of Group Finance," and with these in a somewhat sketchy manner. The subject has a special appeal to-day, and throughout these post-war years has become one of increasing importance. I suppose during this period one of the most frequently used, if not abused, words in the English business language has been the word, coined in these post-war years, "rationalisation," and in order not to disappoint you, or keep you in suspense, I have taken special care to employ it at the very outset of this lecture. Judging by results the word seems to have a great variety of shades of meaning, and for a time was looked upon by some as the talisman for all our post-war economic troubles, for since the war this principle of "rationalisation" has brought into being "groups" in almost every industry, but a period of disillusionment is now upon us. Although we are not going to discuss fully the economic aspect of this subject to-night, there is in my opinion nothing wrong in the principle of rationalisation, but where it often fails is in the method of applying that principle. It is the practical effect of its misapplication, among other things, that we are going to consider this evening. In a lecture of this character one must necessarily generalise, and, therefore, as I shall be dealing with matters which it might not be politic for me to discuss if I were particularising, what I have to say to you to-night must not be applied to any particular group.

### WHAT DO WE MEAN BY THE TERM "GROUP"?

Now, in approaching this subject, let us first consider what we mean by the term "group." We speak of the Iron and Steel, Chemical, Cables and Wireless, Gramophone and Radio, Margarine, Electrical, Tobacco and many other groups. In all of these we visualise the merger of the interests of different entities engaged in the same or allied industries, generally representing a substantial part of those industries, pivoting round the central control of what are called Parent or Holding Companies which, themselves, may or may not be operating companies. The majority of groups fall under this, what one might term, merger group category, although it does not follow that the merger of two concerns necessarily creates what we call a group. The cases I have cited, however, are nearly all instances of the merger of separate groups, so that we have to remember that there may be groups within a group.

Groups also come into being, apart from mergers, by what I choose to call the process of disintegration; that is to say, a single entity may form itself into a group of separate entities by creating distinct companies to take care of the main branches of its business, e.g., by forming manufacturing, purchasing, or distributing subsidiaries or by forming subsidiaries to deal with its business in foreign countries, or to market different commodities.

The term group is also applied to a number of separate entities which, while maintaining their separate status, enter into agreement to share profits or markets under

some quota system, or by forming a joint marketing company, but we shall not have time to deal with these this evening. Groups also may be national or international in character, and in the latter case the problems of finance to-day assume enormous proportions.

It is my intention to try and deal with what I have defined as the merger group and, so far as time permits, to one of an international and industrial character. Many of my remarks, however, will apply equally to ordinary business concerns which may not be classified properly under the term "group."

### WHAT DO WE MEAN BY "GROUP FINANCE"?

Having decided what we mean by "Group," the next question we must determine is what exactly do we mean by "Group Finance"? "Group Finance" means not only furnishing the group with the necessary capital to enable it to acquire the requisite fixed assets and provide itself with the necessary working capital with which to finance its customer credit, stocks and liquid reserve to meet developments and contingencies, but—what is more important—it also means the proper utilisation and conservation of the resources so provided. In short, then, the term "Group Finance" means the provision and efficient control of the resources of the group in all its ramifications. It implies the full economic use of those resources by the elimination and prevention of waste in all its forms.

It will be convenient for us to consider this question of Merger Group Finance under the following heads:—

- (1) Reasons for such merger groups.
- (2) Methods of group merging and fixing shareholders' interests.
- (3) Merger factors contributing to group financial difficulty.
- (4) General factors contributing to financial difficulty.
- (5) Present-day difficulties in financing an international group.
- (6) Budgetary control.

We can, however, only obtain a very incomplete picture to-night, as a separate lecture would be required to deal fully with any one of these headings.

### REASONS FOR MERGER GROUPS.

The reason, or reasons, behind the formation of Merger Groups must be sound, otherwise the group will find itself eventually in almost irreparable financial difficulty. There must be no such real reason, whatever the ostensible reason may be, as the satisfaction of the vanity of some so-called captain of industry who may desire to be a dictator of a business with millions of capital, or a reason such as the elimination of competition from a fear on the part of the management that, under prevailing conditions, the competitive business may be the survivor and that the least line of resistance to be taken is that of merger. There must be an entire absence of personal or family considerations and/or share market considerations in the reason. You may consider this warning to be merely a statement of the obvious, but it is none the less fundamental and none the less necessary.

From a financial point of view some of the most productive reasons for merging concerns, which may or may not already be within our definition of group, are as follows:—

- (1) *Elimination of Wasteful Competition.*—If two or more concerns are trading in the same markets in similar commodities, that is to say, similar in quality and standard, in which the profit margin is too small for any one of them to build up a successful business, there will usually be three main courses open to them. They may

adopt the extremely wasteful course of price-cutting, with attendant over-expenditure in advertising and general selling expenses and consequent great wastage of resources. They may enter into price-maintenance or quota agreements, usually encased in suspicion and very difficult to enforce smooth working. They may get together and merge their interests with, shall we say, sometimes profitable results. The results will depend, of course, to a large extent upon the procedure subsequent to merger, and under the heading of "Factors Contributing to Group Financial Difficulty" we will see later that there are provisos to the fruitfulness of a merger based on elimination of wasteful competition.

(2) *Economic Employment of Assets.*—Another reason for merging is that one concern may not be able profitably to employ its fixed assets and seeks the merger to obtain greater production with the object of decreasing the weight of fixed overheads and thus increasing the margin of profit. The benefits to be obtained from a merger for such a purpose as this will, of course, be modified by the extent to which other fixed assets falling into disuse can be realised, or, alternatively, profitably employed on other production.

(3) *Concentration of Research.*—This is an age of enormous scientific advancement. If, therefore, a successful business of any magnitude is to survive changes in invention, it must be continually exploring with a view to improving the quality and utility of its products. It is a continual race for supremacy, involving the expenditure of large sums of money on research, much of which may never be productive and which may eventually have a crippling effect on the business. Hence we have what is sometimes another reason for mergers in the avoidance of competitive expenditure on research, because there is generally an element of suspicion and mistrust where the resources of research alone are pooled for mutual benefit without merging the manufacturing and trading activities of the concerns.

(4) *Merging of Patent Rights.*—As a result of research, competitive concerns may have each taken out patents which in themselves are insufficient but which together would produce a successful business if the businesses were merged. Also, the Patent Laws of various countries are in such a chaotic condition, and most countries are more than ever working and thinking on a national basis, that it may be necessary to merge with a foreign business in order to create or maintain patent rights abroad.

(5) *Further Reasons.*—Further reasons for merger are (a) the pooling of resources to meet international competition more effectively; (b) for the purpose of strengthening management; (c) to provide wider marketing facilities, and (d) to prevent by combined effort the growth of further competition.

I do not pretend to have exhausted the reasons behind mergers, but I emphasise that if the reason is not based upon sound premises the main result of the merger will probably be the birth of grandiose schemes, with increased expenses and eventual liquidation.

#### METHODS OF GROUP MERGING.

Having decided that a merger of interests is economically sound, the next question to be decided is, "What form is the merger to take?" and, before arriving at an agreed method, there will no doubt be a considerable amount of jockeying for position on the part of the various interests involved. Unfortunately, it seems impossible to eliminate the human element of self-interest, even in such questions as these, and the factor of self-preservation often becomes predominant with disastrous results.

The form of merger, which from a financial point of view is extremely important, must depend upon the

circumstances of the particular case, and some of the questions influencing the final decision are as follows:—

- (1) Will the combine be national or international in character?
- (2) Are the merging companies all engaged in the manufacture of similar products and, if so, what are the possibilities of concentrating manufacture?
- (3) Are the merging companies marketing similar products and, if so, are separate sales organisations essential?
- (4) What is the position of each merging company with regard to contracts? Are there any long-term service contracts, and are there any other long-term contracts of an onerous nature, either for the supply of materials, or in respect of leases, or in respect of foreign commitments, which might delay or even prevent the benefits of merger operating?
- (5) What is the earning capacity of each business?
- (6) What is the net asset position of each business, and what is the comparative position of each concern with regard to fixed, floating, liquid and intangible assets, and the nature of the liabilities?
- (7) What is the comparative position of each business with regard to working capital?
- (8) What is the comparative position of each concern with regard to costs of production, selling and administration?
- (9) What is the condition and quality of labour with regard to each merging company? Is it mobile or immobile?
- (10) How can the various rights and interests of shareholders best be satisfied? and, last but by no means least,
- (11) What is the relative position of the companies with regard to efficiency of boards and management?

If the utmost is to be obtained financially from the merger, these questions should be carefully considered and satisfactory answers obtained before the merger is decided upon or its form settled. Many of them are never considered at all until the merger is complete and it is too late. I have no doubt you can add to my list.

Very often a great deal of work has to be done by some independent firm of professional accountants before satisfactory comparisons can be made, particularly if the accounts and balance sheets are to form the basis for fixing the terms of the merger. Each of the merging companies may have had different ideas or methods of writing off depreciation. Some may have been ultra-conservative, while others may have been the reverse. Again, expenditure of a capital nature written off by one company may have been capitalised by another. Stocks and work in progress may have been valued on different bases, and so on. All such differences in procedure must be adjusted before we can be in a position to decide on the form of merger or the terms to be offered to the respective shareholders.

Alternatively, it may be decided to have the assets valued by a competent firm of valuers, leaving only adjustments in earning capacity and goodwill valuations to the accountants.

The financial success of the merger will depend to a large extent upon the method employed. The following are the two most usual methods of effecting a group merger of interests:—

- (1) A holding or parent company may be formed for the purpose of acquiring the shares or partnership interests, as the case may be, of the concerns it is intended to bring within the group. The function



of such a holding company is to control the trading and financial policy of the group as a whole.

This method is usually adopted where the group is international in character, or where the maintenance of the goodwill of the separate constituents of the group is so important as to necessitate the retention of their separate entity, or where the main object is to keep the field of operations closed against further competition.

As a general rule, under this method, if the constituent concerns are public companies or partnerships, they will be converted or formed into private limited companies and will retain their separate entity distinct from that of the holding company.

- (2) An existing company may acquire the shares of other concerns and so become an operating holding company. The danger of this method is that it brings the individuals responsible for the policy of the group as a whole into too direct contact with one section of the group and, in consequence, judgment may become warped.

There are other forms of merger under which assets are acquired in whole or in part instead of shares, but these do not fall within the scope of our discussion as they are outside the term "Group" as we have defined it.

Sometimes the mistake is made, with disastrous results, of forming a group retaining all existing organisations in intensive competition with each other, when all that is necessary is one operating company, and I think there will be a tendency in the near future for some combines, which are at present in group formation, to revert to a single entity basis, or at least become decentralised.

#### FIXING SHAREHOLDERS' INTERESTS.

Having decided on the form the merger is to take there arises the vexed question as to how the interests of the shareholders of the various constituent concerns are to be fixed.

Shareholders' interests are usually fixed, in practice, in one of three ways :—

- (1) *By protracted bargaining*, in which case the settlement of the interests may be decided solely by loquacity, or it may resolve itself into that, on the principle that there must be give and take on both sides, the amount of give and/or take being regulated by the strength, or weakness, of the desire for merger in the respective negotiating parties.

I am thankful to say that very few mergers are dealt with solely in this manner, although sometimes—despite the fact that a real endeavour is made at the outset to fix the interests of the shareholders on a scientific basis—the final result is that they have been fixed on a bargaining basis.

This generally happens where no independent person has been appointed to assess the shareholders' interests. It is here that our profession can perform one of its useful services in merger cases, provided, of course, that the accountant chosen is independent of the particular group, either as director, accountant or auditor, and the parties concerned are willing to accept his decision.

- (2) *On the basis of earning capacity*. The interests of shareholders may be fixed by taking the relation of net profits of each constituent concern over an agreed period (adjusted in each case on the same basis) to the total adjusted net profits of all the participating concerns over the same period.

In applying this method there is sometimes a failure to distinguish between what I term internal earning capacity,

that is to say, the net profit derived from the industry itself, and external earning capacity, which is the profit earned outside the business from its investments or otherwise.

The earning capacity method of fixing the shareholders' interests is based on the assumption that the value of the net assets is only to be measured by what they have produced in profit. In my opinion this is not quite sound, because it ignores the potential earning capacity of assets which may not have become fully productive and also leaves out the intrinsic value of the assets *qua* assets.

- (3) *On the basis of Net Assets Valuation*.—The third method, which is the most usual, is on the basis of the value of the net assets, including goodwill valuation, which takes care of earning capacity.

The net assets of all the constituent concerns will be valued on a similar basis and the interests of the respective shareholders fixed accordingly.

Behind this method is, of course, the spectre of over-capitalisation with which we will deal later.

#### MERGER FACTORS CONTRIBUTING TO GROUP FINANCIAL DIFFICULTY.

Now let us consider some of the factors arising out of the merger, which very often mean life or death to the group subsequent to the merger.

- (1) *Capitalisation*.—In fixing the capitalisation of holding companies there, very often, appears to me to exist an inability to distinguish between capitalisation for the purpose of fixing the interests of the shareholders and capitalisation of the holding company itself.

There is a natural tendency for each constituent company to fight for the largest possible present interest in the merger without regard to the effect of over-capitalisation on the future prospects of the combine as a whole. In consequence, assets which it has either been considered prudent to write down, or which have been written down for the purpose of providing secret reserves, are written up in the case of each company, sometimes to an alarming degree, in the valuation for the purpose of fixing the shareholders' interests in the holding company. To this extent we cannot quarrel with the procedure, but, very often, this written up valuation becomes the basis of the share capital of the holding company. The result is that there is a big disparity between the net asset book values of the constituent companies and the figure at which the holdings stand in the books of the holding company.

The capital of the holding company need bear no relation to the capitalisation arrived at for the purpose of fixing shareholders' interests. The capitalisation of the holding company should first be fixed on such a basis as will enable the combine to work without financial difficulty. The share capital thus fixed would then be distributed to the respective shareholders in the ratio arrived at by the special valuation of net assets for that purpose.

Over-capitalisation creates the following main financial difficulties :—

- (a) It may become impossible to make the business remunerative and sometimes involves the cessation of dividends, although the constituent companies themselves may be working on a profitable basis.
- (b) It sometimes leads the management into the temptation to bolster up the profits by the manipulation of stocks, depreciation and/or reserves.
- (c) It leads to schemes for subsequent writing down of capital, which engenders loss of confidence on the part of the investor, who fails to see that his

interests are in no way affected by such procedure, thus making the raising of any fresh capital extremely difficult.

(d) It may involve the mortgaging of the assets and business to raise additional working capital.

(e) It may detract attention of the management from business essentials to consideration of financial policy, which generally means that inefficiency is allowed to creep into the business with ultimate loss.

(2) *Onerous Contracts.*—Another stumbling block to financial success is the fact that very often sufficient weight and attention is not given to existing contracts in respect of service agreements, forward contracts for the supply of material, leases, foreign commitments, &c. These contracts may be of an extremely onerous nature, preventing reorganisation of the group business and absolutely prohibiting the normal benefits of group merger from operating.

(3) *Retention of Internal Competition.*—In the hope of keeping other competition away from the industry, selling and sometimes even manufacturing organisations are retained by merged groups in internal competition with each other.

Internal competition may be a good thing from the point of view of closing markets to others up to the point when it becomes wasteful. It becomes wasteful, and may even become a source of financial danger, when it means that the only competing forces in a particular market are the constituent companies. Internal competition involves duplicate and sometimes even triplicate advertising expenses, selling expenses and possibly administration expenses, resulting in overhead charges which may have a crippling effect upon the entire business.

In general, and within certain limits, external competition is much better for a business than wasteful internal competition, because the former keeps the business tuned up in efficiency to the last degree, provided of course such competition is not measured through the spectacles of a superiority complex, without the wasteful expenditure concentrated in the case of internal competition on the sole object of preventing others coming into any particular industry. This question of internal competition must, however, be decided upon its own merits in each case of merger, and no dogmatic ruling can be given on the subject. It is, however, a truism that whatever is done to try and prevent it, a profitable business will always attract outside competition.

(4) *Management.*—In dealing with the subject of Group Finance, we cannot afford to ignore the important influence of policy upon the financial success, or otherwise, of merger groups. The responsibility for fixing policy rests with the board of directors. The policy fixed by the board may mean either financial success or disaster. It is essential, therefore, that persons appointed to formulate the policy of the business should be carefully chosen, mainly for their knowledge of the business or some particular branch of it. In practice, however, we find the human failing of self-interest also predominating in this matter, and the interests of efficiency are often sacrificed to those of costly diplomacy, with the result that many mergers not only bring into being large, unwieldy and unknowledgeable boards, but possibly a duplication, or triplication, of them. Where such a board exists it is generally at the mercy of one executive head in the person of the managing director, who may or may not represent the views of his executive generally, and may in fact be in the position of a dictator who looks upon the company as the special preserve of himself and

family. Consequently, executives whose duty it is to carry out the policy fixed by the board, may be endeavouring to put into effect a policy they know to be entirely wrong without having a voice in fixing that policy, with the result that they, sometimes, cease to take that intelligent interest in their work which is essential to efficient management and financial success. There is also a general absence of team work in such a concern.

What, then, is the ideal board for group working? A board composed entirely of executives is likely to be more successful than the one we have been dealing with, but here again such a board is not always entirely satisfactory, owing to their relationship to the executive head. In my opinion, the ideal board is one composed of the entire executive with a sprinkling of men of outstanding integrity and special knowledge, who have no other direct contact with the business except that of a shareholder, and have no special axe to grind.

The policy of giving seats on the board to representatives of special interests and limited by time to the duration of that interest will, of course, have to be continued in special cases.

You may think I am crying for the moon, but I venture to prophesy that the day is not far distant when shareholders, under proper leadership, will take a keener interest in this vital question of boards of management, for it is safe to say that inefficient management has caused more financial disasters than anything else.

Now, if you will pardon for a moment what you may consider a digression from my subject, I should like to deal with a question which is closely tied up with the matter of efficient management and one upon which, I must confess, I feel rather strongly. For some time past I have no doubt that you have observed in the Press, and in the reports of public speeches, a dead set being made at the young man of to-day. The cry is that there are no young men to-day of the calibre of our fathers fit for management or leadership. This young man of to-day has had very little opportunity of stating his case, while our "boys of the old brigade" have had the field almost entirely to themselves, so I propose to take up the cudgels on his behalf. What is the real position? In almost every walk of life to-day, whether it be business management, politics or religion, we find that the people who are holding the reins are those who have either grown aged or tired in their particular sphere. Some have arrived at the top by sheer merit, while others—who are the most persistent in their tilts at the delinquencies of the young—have been literally carried to their positions on the flood tide of world prosperity. To-day we have just as many earnest young men striving to improve their position as ever. The examination rooms testify to this. To-day, the economic structure of the world has entirely changed, but our businesses in many cases—of course there are exceptions—are being controlled by people who are still thinking in terms of pre-war prosperity or in war millions. Initiative in the young man, if not killed, is discouraged by these so-called leaders, who very often consider that no person in their business is indispensable but themselves. What business management requires more than anything else in these times is real live leadership, untrammelled by the past, and the time has arrived in my opinion when our old "die-hards" must be prepared to make way for youth if we are to make financial headway in the future.

I observed recently in a report of an interview with a most distinguished economist, who was asked if he would be prepared to give an ear to the young man, the answer, "Yes, if he is not a bumptious young ass." Any young man with initiative and capable of thinking for himself



is liable to be thus dismissed. If there is one thing that we are suffering from to-day in management it is not the "bumptious young ass," but the "bumptious old ass" who spends his time either telling you what he did in the "good old days" or rolling out platitudes in public which he hopes will carry his name into the Honours list. He not only has no constructive proposals to put forward to meet current conditions, but is full of destructive criticisms when such proposals are produced by the young man.

#### GENERAL FACTORS CONTRIBUTING TO FINANCIAL DIFFICULTY.

In addition to the factors arising out of merger itself there are some general factors which very often contribute to financial difficulty:—

(1) *Abnormal Factory Overheads.*—There frequently appears to be an inability to distinguish between temporary and permanent factory requirements, with the result that in times of abnormal prosperity large factories are built up and profits are divided without making provision for meeting overheads which subsequently, in normal times, become abnormal. If the factories are extended out of profits no serious trouble will arise, but trouble does begin when they are built up out of capital.

There are two ways of avoiding this difficulty:—

- (a) By utilising outside available resources to meet excessive sales demand instead of enlarging existing factories; or
- (b) By creating adequate reserves in times of prosperity, for the purpose of taking care of abnormal overheads in normal times.

The building up of large factories beyond normal requirements also tends to make the business inelastic, and consequently creates financial difficulty should there be any change in the industry itself through the inability of the business to adjust itself to those changing conditions.

(2) *Temporary and Permanent Capital Requirements.*—Another source of financial difficulty is sometimes to be found in the failure to recognise the difference between temporary and permanent capital requirements resulting in the provision of capital by temporary means, such as redeemable debentures, to meet a permanent need, or the raising of permanent capital, in the form of shares, to meet a temporary need.

(3) *Profits of Subsidiary Companies.*—Profits of subsidiary companies are very often brought into the accounts of the holding company, although they have not been declared by way of dividend. This practice may be a source of financial danger if care is not exercised, for the profits of the parent company may be distributed up to the hilt, while it may be found that the subsidiary profits so taken into account have been swallowed up before distribution by subsequent subsidiary losses, leaving the holding company to make good those losses in what may be a very difficult period.

The practice of thus bringing subsidiary profits into the holding company's accounts can, in my opinion, be justified only in the following circumstances:—

- (a) If the subsidiary company is wholly owned;
- (b) If the profits thus brought in remain undisturbed by the holding company, or equivalent reserves are created; and
- (c) If the subsidiary is a foreign subsidiary, that the rates of exchange are carefully watched in relation to the profits brought in.

On no account should any part of the undistributed profits of partly owned subsidiaries be brought into the

accounts of the holding company, even though such company holds a controlling interest. Also, in the case of a foreign subsidiary company, in these days of fluctuating exchanges, the prudent course to adopt is to bring in only dividends, otherwise financial trouble will sooner or later ensue.

#### PRESENT DAY DIFFICULTIES IN FINANCING AN INTERNATIONAL GROUP.

Now let us consider for a few moments some of the present day factors which make it almost impossible for an international group to operate with financial success. International groups to-day are still fighting the full blast of the worst economic monsoon history has experienced without being able even to hazard a guess at the length of its duration. In pre-war days we could measure, fairly accurately, the trade cycles and plan accordingly. To-day it is extremely difficult to make any intelligent forecast, although there is quite a lot of irresponsible chatter in which cause and effect are nicely mixed up, but out of which very little of a constructive nature evolves.

Our economists have all been busy theorising, agreeing to differ among themselves and talking glibly about the "gluttability of wants," but I have not yet seen a clear statement of the economic position. Perhaps we shall get a united lead from the World Economic Conference to be held in London shortly. However that may be, we are continually asking ourselves what is wrong with the world? Is it the absence of a stable international currency, or is it the gold standard, or mechanisation, or international debts, or price levels, or tariffs, or financial embargoes, or politics, or all of them, and which is cause and which is effect? If we can only obtain a proper diagnosis of the disease the remedy may become more apparent. The matter is further complicated by the attitude of politicians all over the world, who are, in my opinion, trying to do the impossible thing of settling international troubles on a national basis. More than ever is the world thinking nationally, with the intensely human failing of making self-interest predominant, and, as an outcome of this, international groups are faced with the following practical financial difficulties:—

(1) *Tariffs.*—Every country in the world is trying to find an outlet for its commodities and/or services, and every other country is striving to prevent them doing so by the building of high tariff barriers. Owing to constantly changing tariffs, an international group, in endeavouring to maintain a reasonable profit, is continually having to adjust prices and, therefore, is up against the impossible task of trying to keep its prices stable. This, of course, is only one factor affecting price fixing. Tariffs may be so high as to prevent the group from exporting without considerable loss, with the result that a decision has to be made as to whether it will cease trading with a particular country altogether, leaving that market entirely free to competition, and thereby destroying its goodwill and also suffering great loss on realisation of assets in that country, or whether it will sink further capital in the building of factories (which may be throwing good money after bad) and so keep the goodwill alive until the return of more prosperous times. If the latter course is decided upon as being the lesser of two evils, then, as we shall see subsequently, it has to meet other financial troubles, apart from the fact that the particular market may be insufficient to support such a factory. Another disturbing factor with which an international group has to cope in respect of import duties is that the basis of imposing the duty varies as between different countries. In some countries the duty is levied by

weight, while in others it is on an *ad valorem* basis. This makes the policy with regard to price fixing even more difficult to determine in trying to avoid upsetting the relation of prices between two different countries.

(2) *Financial Embargoes*.—Then comes the difficulty imposed by so many countries on the export of capital. In many countries to-day the financial embargoes are such that an international group finds it extremely difficult, if not impossible, to obtain remittances in settlement of inter-company transactions in respect of the supply of goods or cash advances, let alone take out any profit it may be fortunate to make. It is not much use trying to get the money out surreptitiously, for every individual is subjected to a cash audit on entering and leaving the country.

The purchase of foreign exchange is so strictly controlled in many countries that international trade is next door to impossible. In addition, international groups are also put under a further disability, for they cannot now readily cover fluctuations in exchange in respect of floating assets abroad, owing to the total inability in many cases, and great difficulty in others, of dealing in forward foreign exchange.

In other cases, where the national restrictions have possibly not been so great, international groups have nevertheless been deprived of the use of their surplus funds in various countries by reason of the loss that would be suffered in respect of the abnormal discount in relation to the £ at which the particular foreign currency stands. For example, even within our own Commonwealth, the Australian £ stood for a long time at over 30 per cent. discount, and even to-day fluctuates round about 27 per cent. discount, thus, apart from other restrictions, making it very expensive to take surplus funds out of Australia which might be profitably employed either at home or in some other country. I only instance Australia as an example of what applies to many other countries.

In many cases the discount bears no true relation to the real position of the foreign exchange, but may arise mainly from international distrust, which is another factor for which an international group may have to pay dearly.

There are also restrictions in various countries on capital issues and internal borrowing, thus throwing the onus of financing group businesses in those countries entirely upon the international holding company and the country in which it is situated, unless that country itself has also placed restrictions on export of capital, in which case the probabilities are that the business in the foreign country will sooner or later have to be liquidated. There is, of course, the possibility that when the spectre of increased unemployment (which would be caused by closing down the business) is revealed to the foreign government, they may afford some temporary relief from the restrictions in order to avoid other troubles for themselves.

Further, these financial embargoes create difficulty for the group in credit transactions, for in many countries distributors find it almost impossible to obtain finance to tide them over the present world trade depression; in consequence, either the group must give them abnormal extended credit—which means that abnormal working capital is required to carry on the business, or the distributors and agents become bankrupt, with the result that the group suffers increased loss in bad debts.

(3) *Taxation*.—Group finance is also rendered extremely difficult by high national and local taxation all over the world.

In this country, in common with other concerns, the group has to pay crushing national taxation upon statutory profits as distinct from realised profits, and what little life remains in the concern after that is nearly extinguished by the appalling heavy rates imposed by local authorities. It is true the country must be run, but must it be run on such a grandiose scale?

In addition to taxation at home, an international group suffers all kinds of heavy taxation abroad. In some countries there is a turnover tax, a profits tax and a capital tax, i.e., a tax based upon the increased net assets, both for national taxation and for municipal taxation. The group, therefore, suffers tax upon its foreign profits both at home and abroad, or alternatively is deprived of the privilege, in present times, of setting off foreign losses against home profits.

There is also a continual fight by the group in some countries, where the foreign control is known, against attempts being made not only to tax the profits made in the particular country, but also to tax profits made by the group outside that country. Those of you who know that in most countries abroad there are no well defined income tax rules, but taxation is mainly a matter of bargaining, will realise the difficulties which may at times confront the group from foreign taxation, as in most cases the tax has to be paid on assessment and argument comes after payment.

#### BUDGETARY CONTROL.

Having examined some of the rocks in the financial seas, let us now consider, as briefly as possible, the control of the ship itself.

We should label the captain of a ship who went to sea without his charts or compass and a well defined plan for his voyage as insane, but it still seems difficult for some people to grasp the fact that the position is somewhat similar when management endeavours to conduct its business without definite planning and efficient control.

A group business, as is the case with any other business, may be efficiently organised, over organised, or not organised at all. The last two are both calculated to spell disaster, but of the two—given no other alternative—I prefer over organisation, because, although its greatest deficiency is that it usually develops into a great game of "passing the buck," at least you have got a measure of control and by a little readjustment it can be converted into efficient organisation. Where, however, there is no organisation and everyone is trying to conduct the business in a perfect maze, it is very often incapable of re-adjustment except by the breaking up of the business and rebuilding, which is a very costly process.

Efficient organisation demands careful planning and effective control of expenditure throughout all the ramifications of the group. I very much regret we have no time to-night to go into those very important questions—from the point of view of group finance—of purchasing control, stock control, credit control, standard costs and marketing research, but if you can bear with me for a little while longer I should like to complete this lecture with a general reference to budgetary control, upon which, as you know, so much depends in group finance.

What is budgetary control? It is nothing more than the control of the finances and operations of an undertaking by the setting of standards and the subsequent comparison of the actual results with those standards. It may be described as the searchlight of the business by means of which attention is drawn to wastages and leakages at the earliest moment. In addition, it has the following functions:—

- (1) It creates a sense of responsibility.

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- (2) It fixes that responsibility on individuals.
- (3) It ensures proper organisation and planning of operations.
- (4) It provides an incentive to effort.

There are usually two main budgets, the Cash Budget and the Manufacturing and Profit and Loss Account Budget.

The Cash Budget will distinguish between capital and revenue receipts and payments. The Manufacturing and Profit and Loss Account Budget will be compiled in the usual form adopted for these accounts. Expenditure must be properly classified and coded, and such classification must also be retained in the actual profit and loss accounts, in order that the budgets may be finally linked up with them.

The managing directors of the constituent companies should be responsible to the managing director, or controller, of the holding company for the proper preparation of the budgets of their respective businesses, each departmental head being responsible to his own managing director for the preparation of the budget of his particular department. The period covered by the budget will depend upon the size of the business and may be half-yearly or yearly, broken down into weekly, monthly or quarterly periods.

The procedure usually adopted in compiling the budgets is as follows:—

- (1) The marketing research and sales departments will make their estimate of turnover and advertising, selling and sales administration expenses. The turnover will be broken down into quantities of detailed commodities.
- (2) The factory will then draw up its production schedule, based upon the sales department's estimate of turnover. Labour and material and other variable expenses required to meet the programme will then be estimated.
- (3) The purchasing controller will line up his purchasing schedule with the production programme and prepare his departmental expense budget, which may be combined with the factory estimates or may be dealt with separately according to the particular form of organisation adopted.
- (4) The sales and factory estimates will then be carefully examined by the managing director, or controller, and after any necessary adjustments have been made will be handed to the chief accountant.
- (5) The chief accountant should then prepare his budget of administrative expenditure, and finally the Cash Budget and Manufacturing and Profit and Loss Account Budget, which, after being passed by the managing director, or controller, should then be placed before the board for adoption.
- (6) The Manufacturing and Profit and Loss Account should then be handed to the cost department for the preparation of standard costs.
- (7) Subsequently there will be an automatic analysis of the actual turnover and expenditure under the proper classifications by the chief accountant, which will be compared with the budget figures and investigation directed where necessary.

It may take as long as two years before your budgeting reaches a high standard, but if it never reaches such a level the great thing about it is that it teaches all responsible officials to think in terms of the Profit and Loss Account, instead of either thinking exclusively in terms of turnover or not thinking at all.

The success or failure of budgetary control will depend upon:—

- (1) The personality and acumen of the responsible executive.
- (2) The full co-operation of all executives.
- (3) The proper classification of expense.
- (4) The prompt and accurate preparation of comparisons; and
- (5) An intelligent interpretation of the comparisons for executive use.

Now, in conclusion, let me say that we have this evening been able only to skim the surface of this vast subject of Group Finance, but if what I have said has impressed upon your minds the essentials to successful Group Finance, of up-to-date management, reasonable capitalisation, and the proper planning and control of all financial operations, my object has been achieved.

#### Discussion.

The CHAIRMAN: We have listened to a very practical address on some of the problems which arise in the daily routine of Group Finance. Mr. Ashworth has told us of some of the dangers and difficulties which beset the sea of merger finance, and has suggested methods by which those difficulties can be overcome, but, as he has himself pointed out, the whole subject is one which admits of considerable expansion and discussion, so I am going to ask Mr. Thomas Keens, the immediate Past President of this District Society, to open the discussion.

Mr. THOMAS KEENS: I think you will appreciate, as I do, that in a lecture covering such a field as this to follow with a discussion and to attempt to cover the whole of it would really require another paper as long as that which Mr. Ashworth has given us, and probably considerably longer. I do not therefore propose to do it, but I should like to join with the Chairman in congratulating Mr. Ashworth on the paper he has given us. Personally, I had very great expectations, and I have certainly not been disappointed. I thought from the beginning that we were going to have some glorification of rationalisation, in which case I should have been prepared to enter the lists in order to express views which you have previously heard from me and which I am never tired of expressing. The Lecturer says that there is nothing wrong with rationalisation in principle, but that it often fails in its method of application; so it does not leave me very much more to add. There is one thing of which I am glad, and that is that we have got through the stage we were in a few years ago, when the remedy for every conceivable difficulty from which we were suffering was to be found in that blessed word "rationalisation." Nobody knows exactly what it means. You may ask any number of people what they mean by rationalisation and they nearly all give you different interpretations. Possibly, if we could agree as to what it is, we should not disagree so much about the process. We are told that there are many misconceptions with regard to it. Anyone who has been down to South Wales, as I have been on behalf of this Society, and has heard what has taken place at our various meetings and dinners regarding the amalgamations in the coal industry and their results, will not be very much enamoured of rationalisation applied in that particular manner. I am told that it has been applied in the wrong manner; at any rate the net result is that many profitable undertakings have ceased to be. There is another way of looking at the matter. When I was in America it was put to me in this way. The big trusts of America are bound to fail and to be broken up in the near future, for this reason, that the individual businesses have usually been created by extraordinarily able men—men to whom the description of supermen might have been applied—and they arrived at the conclusion that the time had come to slip out. They accordingly slipped out, and the effect of the system has been that the opportunities were not created for producing more men of like ability to follow

them. Therefore, it is said the probabilities are that you will see the great groups disappear. We have had a number of reasons as to why mergers take place, but the principal one has been omitted, namely, the possibility of financial gain on the part of the intermediary. That seems to me to be one of the strongest reasons, and we know very well what the end of it is going to be. The next point we heard about was the necessity for shareholders taking more interest in the character of their boards, and we have had a suggestion from Mr. Ashworth as to what would be his ideal board. But before we get to that you will probably ask me what is my idea as to the best unit for industrial purposes. I am not dealing with public utility companies or anything of that description, because obviously they are very different, but, broadly speaking, for an industrial company producing something not in the nature of a monopoly, having to sell its goods in the open markets of the world, I maintain very strongly that by far the best unit is that of an undertaking sufficiently large to be able to afford reasonable expenditure for research—not to be bothered acutely from day to day with finance, but nevertheless to be so small that its managing executive will know in person and without a multitude of reports, charts and graphs, exactly how the business is doing. It should not be so large that the management will not come into definite contact with the labour employed—the human element. The ideal board, so far as I have been able to ascertain in practice, is one where the active members of the executive do not themselves comprise a majority of the board and where matters relating to the terms of service of the executive officers are dealt with by the non-service members of the board. That kind of board, in my experience, has produced by far the best results. Mr. Ashworth has dealt with the difficulties of the groups in regard to foreign trade. I think we ought to make it perfectly clear that those difficulties are not confined to the groups; they are difficulties which an individual unit in this country has to face in doing overseas trade. Go into the City and you will find that the merchants have frozen balances everywhere. Even if their customers can pay their debts, the money is left in the banks somewhere or other, and goodness knows when they will be able to get it out. There are 36 or 37 countries that have exchange controls, making it difficult, if not impossible, to get money out of them. It is very difficult to see what solution there is at the present time, and I agree with Mr. Ashworth that if the World Economic Conference can show us a way out we ought to be very thankful to them. But I think we ought to make it clear when blaming tariffs for their share in this difficulty, that this country only adopted tariffs when it was impossible to convince any other country that free trade was better. Attention was called by Mr. Ashworth to the difficulties of groups with regard to taxation and double taxation. Obviously double taxation is a thing to be avoided as far as possible, but I trust we shall all bear in mind that the taxation falls equally upon the single entity or firm as it does upon the group; the only reason why their troubles are greater is because they are trying to get into too many fields at once.

Mr. HENRY MORGAN (Past President of the Society of Incorporated Accountants and Auditors): I desire to add my expression of appreciation of the excellent paper which Mr. Ashworth has delivered and to which I have listened with great pleasure. In the short time at his disposal, Mr. Ashworth has given us a very lucid explanation of the term "Group System," with its advantages, its disadvantages, its difficulties, complexities and dangers. I noticed, however, that whilst Mr. Ashworth gave a clear definition of the term "Group System" and explained the reasons for the formation of merger groups, he very carefully refrained from expressing any opinion as to whether the adoption and extension of such a system was advantageous and beneficial for commerce and industry. If one considers the various industrial combinations and merger schemes which have been carried through since the War, there are some that have been notably successful, but there is a very considerable number in which the result has been the very reverse.

The reasons which Mr. Ashworth sets out as to why the merger or group system is resorted to may possibly have much to recommend them, but in practice the difficulties and dangers which he has so clearly indicated will, in my opinion, far outweigh the apparent benefits. I am aware that in some cases success, and outstanding success, has attended the amalgamation of soundly established and prosperous concerns in the same line of business, but, on the other hand, many merger schemes have been resorted to in an attempt to rescue businesses that are severely depressed and in many cases losing money heavily. These, in my opinion, are not the conditions under which the difficulties and disadvantages of the group system can be successfully overcome. One of the dangers which Mr. Ashworth indicated was that of over-capitalisation. This is one of the most serious aspects of the group system, especially in times of great speculative activity, for it frequently happens that regard is had to prices on the Stock Exchange rather than to real and sound asset values. Mr. Ashworth referred at some length to the composition of boards, and this is one of the most important, and frequently the most unsatisfactory, aspects of group finance. Where many companies enter into a merger scheme there are always so many individual interests to consider. The directors of the constituent companies require consideration and expect to be paid extravagant sums as compensation for loss of office unless they are put on the boards of the merger companies. The result is that the boards become unwieldy and unbalanced, because it precludes the inclusion of the executive side of the business, which is so important a factor in the success of any big business. Mr. Ashworth is right when he says that inefficient management has been a greater cause of financial disaster than anything else. I entirely agree with him that present day conditions require the recognition of the younger men, but the most efficient board must be found in what I would call a proper balance of youth and experience of the management and executive and those not actively engaged in the management of the business. Reference was made to the treatment of subsidiary companies' results in the accounts of the holding company. I agree with Mr. Ashworth that no part of the profits of subsidiary companies, except that which is distributed in dividend, should be brought into the accounts of the holding company as profit available for distribution. That, of course, is in accordance with the law. I maintain, however, that the extent to which the profits of subsidiary companies have not been distributed and therefore not included in the profit and loss account of the holding company should be clearly stated and disclosed. That is in accordance with the recommendation contained in the report of our own Council in regard to Company Law Amendment. If the profits of subsidiary companies are carried forward in the accounts of those companies without disclosure to the shareholders of the holding company, and are applied in subsequent years in meeting the losses of those subsidiary companies, then the amount shown as profit in the holding company must be misleading so far as regards the profits of the group as a whole. I am sorry to disagree with Mr. Ashworth that the disclosure of subsidiary companies' full results should be required only in cases where the share capital of the subsidiary company is wholly owned by the holding company. If this were a provision, it is quite easy for any of us to see what serious abuses would be the result. I think, however, that some alteration in the provisions in regard to subsidiary companies might be desirable, and that the requirements in regard to disclosure of the results of subsidiary companies should extend, not to companies whose shares are controlled as to 50 per cent. by the holding company, but to cases where the holding company controls 75 per cent.

The CHAIRMAN: I am very pleased to-night that we are able to welcome to this hall—I believe for the first time—Sir Herbert Ormond, who has been associated with the municipal life of North London for 50 years.

Sir HERBERT J. ORMOND, J.P.: I cannot talk to you at all from a professional point of view. I have been a



tradesman, and I was fortunate enough two or three years ago to be bought out by one of these great merger groups, and owing to the good offices of my friend Mr. Witty I got my money. (Laughter.) Now that merger group is in difficulties. I will not say any more than that. But what I was more particularly thinking about was a great merger which is to come before Parliament next week. I do not want to talk politically, but next week, you know, Parliament is going to consider the London Transport Bill. This Bill, as regards 60 per cent. or 65 per cent., has now been adopted by the present Government, and you are going to have a tremendous merger in the transport industry in the County of London—the London County Council trams, Tillings' buses, Croydon trams, East and West Ham trams, and Tubes, and, as regards a certain distance from London, the pooling of the receipts of the great main lines. The London County Council—very fortunately for them and for me as a ratepayer—have secured for their trams £8,000,000, on which they are going to have 4½ per cent. if they earn any profits. A great many people think it is too big a price, but I am wondering whether there will be any profits when this tremendous combine takes place. It is to cover 2,000 square miles, and I believe its managing syndicate, or the gentlemen who are going to choose the managers, will be a heterogeneous body of gentlemen not particularly expert in transport matters—the Chairman of the London County Council and, I believe, one of the Presidents of—something to do with figures—(laughter)—very excellent men, no doubt, in their particular spheres, but some of us, who are just ordinary borough councillors, wonder if they are experts in this particular direction. There is to be no call on the rates, and some of us who live in London are very jealous of the competition that has obtained for us such great facilities. We are very much afraid that when they do not make enough money at the present fares to pay their way, we shall lose some of the great facilities that the working man now has—the penny and twopenny fares, the shilling all-day fares, and the sixpenny night fares—we are afraid that they will go by the board.

The CHAIRMAN: Ladies and gentlemen, having regard to the hour, I must with regret now close the debate. Before asking Mr. Ashworth to reply to the few points raised in the discussion, I am going to ask Mr. Stephenson to propose, and Mr. Baldry to second, a vote of thanks to him.

The vote of thanks was moved and seconded, and carried with acclamation.

Mr. ASHWORTH: I am very much obliged to you for this vote of thanks. I do not think there is much to reply to, but there are one or two things I want to say. Mr. Keens, being a very able politician as well as an eminent accountant, deals with these matters in the true style of all politicians. He said a lot, but, as all politicians do, he finished up in his kindly way by letting me down very lightly. Mr. Henry Morgan is under a great misapprehension if he thinks, after all I have said and written on the subject, that I would for one moment countenance or suggest that the profits or losses of subsidiary companies should not be disclosed on the face of the accounts of the holding company. For the last six years I have been shouting from the house-tops that they ought to be disclosed, but to-night I have been dealing with the subject from a different angle, that of management and not from the point of view of disclosure to shareholders. I think my views on proper disclosure are well enough known for me not to emphasise them any more. If you look through past lectures or articles I have written, you will see that there is no doubt on the subject so far as I am concerned. It does not matter whether the subsidiary is small or large, the amount of the profit or loss should be definitely disclosed to shareholders, as well as how such profits or losses of that subsidiary have been dealt with in the accounts of the holding company. I would not like that there should be any misapprehension on that point. I was merely talking about the management side, the financial side, the bringing of profits into the accounts of the holding

company, and I said that on no account should you bring the profits of a partly-owned subsidiary into the accounts of the holding company unless they had been declared by way of dividend. I also gave an indication that I was not very much in favour of the procedure of bringing in the profits of wholly owned subsidiaries, but there I made the proviso that, if you reserved for them in full, I had no objection provided you also watched the rate of exchange. I thank you very much for the reception you have given me this evening.

A vote of thanks to the Chairman terminated the proceedings.

## District Societies of Incorporated Accountants.

### CUMBERLAND AND WESTMORLAND.

(STUDENTS' SECTION.)

A meeting of the Students' Section was held at Carlisle on February 3rd, when a large number of students attended. A lecture was delivered by Mr. R. F. Cartwright, LL.B., Solicitor, on "Topical Problems in Commercial Law." The chair was taken by the President of the District Society (Mr. Edmund Lund). The Lecturer dealt with the most interesting post-war legal decisions, and also reviewed many current problems relating to company law and the administration of the Companies Acts. He dealt specifically with the liabilities in connection with statements contained in the prospectus of a company, the liability of an auditor in connection with the certification of company accounts, and the liabilities of a trustee, liquidator or receiver. Reference was also made to certain current problems relating to the sale of goods. The lecture was followed by a spirited discussion.

### LIVERPOOL.

On January 23rd a meeting of the Liverpool District Society was held at the Victoria Hotel, Southport. The Mayor of Southport (Councillor G. E. Hardman) was in the chair, and was supported by Mr. Alex. Hannah (President of the Society), Councillor W. H. Bellis (the Deputy Mayor), Mr. R. Edgar Perrins (Town Clerk of Southport), and a large attendance of members and guests. A most interesting and informative lecture on "Bankruptcy" was delivered by Mr. James Allcorn (Official Receiver), and a discussion followed.

After the lecture, the Society entertained a number of guests at dinner, including the Mayor, the Deputy Mayor, the Town Clerk, the Official Receiver, and representatives of other professions.

### SOUTH WALES AND MONMOUTHSHIRE.

(CARDIFF AND DISTRICT STUDENTS' SECTION.)

The meeting of the Cardiff and District Students' Section, held on February 9th, took the form of a Mock Creditors' Meeting, with Mr. K. S. Williams, A.S.A.A., presiding in the capacity of the largest creditor. The meeting was exceptionally well attended and proved instructive and interesting. After consideration of the statement of affairs and deficiency account, the contents of which resulted in a severe examination of the debtor, the creditors resolved that he be made a bankrupt in view of the unsatisfactory state of his affairs.

## Incorporated Accountants' District Society of Liverpool.

### ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of Liverpool was held on February 17th, in the Midland Adelphi Hotel, Liverpool. The LORD MAYOR of the City (Councillor Alfred Gates) presided, in the absence, through indisposition, of Mr. Alexander Hannah, the President of the Liverpool Society, and amongst others present were:—Mr. Justice Hawke, Mr. Justice Lawrence, Mr. E. Cassleton Elliott, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors), the Mayor of Bootle (Alderman James Scott, J.P.), the Lord Marks, C.B.E., Mr. Richard D. Holt, J.P. (Chairman of the Mersey Docks and Harbour Board), Alderman Edwin Thompson, J.P., Mr. Stuart Deacon, J.P. (Stipendiary Magistrate of Liverpool), Mr. E. D. Symond, Registrar of the Liverpool and Birkenhead County Courts; Major J. Albert Eckes (Chairman of the Liverpool Chamber of Commerce), Mr. James Allcorn (Official Receiver), Mr. Percy Corkhill, C.B.E. (Lord Mayor's Secretary), Mr. L. A. P. Warner, C.B.E. (General Manager and Secretary, Mersey Docks and Harbour Board), Mr. J. Gregory (Principal Inspector of Taxes, Liverpool), Mr. G. L. Henderson (Inspector of Taxes, Liverpool), Mr. Harold G. Alexander (President, Liverpool Society of Chartered Accountants), Mr. S. R. Harmer (President, Liverpool Institute of Bankers), Mr. G. Cameron Ollason, F.C.A. (President, Liverpool Chartered Accountants' Students' Association), Mr. R. Henry Thomas (President, Auctioneers' and Estate Agents' Institute), Mr. F. J. Winchester, F.C.I.S. (President, Liverpool Branch of the Chartered Institute of Secretaries), Mr. R. F. Cornelius (President, Liverpool Corn Trade Association), Mr. A. M. Whitter (Hon. Secretary, Liverpool Law Students' Association), Mr. R. Miller, F.C.I.S. (Hon. Secretary, Liverpool Branch of the Chartered Institute of Secretaries), Mr. A. E. Piggott (Hon. Secretary, Manchester District Society), Mr. Tom Revell (President, Yorkshire District Society), Mr. W. H. Stalker (President, Newcastle-upon-Tyne District Society), Mr. D. Telford Boyd (President, Belfast District Society), Mr. Ernest E. Edwards, B.A. (Parliamentary Secretary of the Parent Society), Major E. S. Goulding, O.B.E. (Vice-President, Liverpool District Society), Mr. Charles M. Dolby, F.S.A.A., Mr. C. Hewetson Nelson, J.P., F.S.A.A., Mr. Charles Tunnington, F.S.A.A., Mr. A. E. Noon, F.S.A.A., Mr. T. T. Plender, F.S.A.A., Mr. S. W. Hanscombe, A.S.A.A., Mr. Ernest Chetter, F.S.A.A., Mr. J. C. Summerskill, A.S.A.A., Mr. W. G. Lithgow, F.S.A.A., Mr. S. Woodyer, A.S.A.A. (Hon. Auditor), Mr. C. Dudley Thayer (Hon. Secretary, Liverpool Students' Section), Councillor R. Duncan French, F.S.A.A., and Mr. W. Bertram Nelson (Hon. Secretary).

The toast of "The King" having been honoured,

The LORD MAYOR said they would all share with him regret that their President, Mr. Hannah, was prevented by illness from being present. For that reason the next toast on the list—"The Lord Mayor and the City of Liverpool"—would be omitted. He regretted, also, to have to inform them that Mr. J. C. Jackson, K.C., M.P., who was to have followed Mr. Justice Hawke in responding to the toast of "The Bench and the Bar," was unable to attend the dinner, as he had been suddenly called back to London. Mr. Ernest E. Edwards, Barrister-at-Law

(Parliamentary Secretary to the Society in London), had kindly agreed to take Mr. Jackson's place.

Alderman EDWIN THOMPSON proposed "The Bench and the Bar." There were many toasts that it was a great honour to propose. He could say with all sincerity that he thought that of "The Bench and the Bar" headed the list. On that account it was a most difficult one to propose. It was with great humility as well as pride that he attempted to do so that evening. It was appropriate that the accountants should have invited as their chief guests His Majesty's Judges and one of the leading members of the Bar, because, after all, accountants were responsible, to a certain extent, for keeping them busy. (Laughter.) His hearers could take that whichever way they liked. (Renewed laughter.) The way he intended it was that owing to the necessity of certain words at the bottom of balance sheets—"We have examined, &c., &c."—it meant that, but for their investigations, it was possible that certain individuals were living at their own expense who might otherwise be a charge on the country, and also *vice versa*. (More laughter.) Apart from the fact that accountants were, to a certain extent, custodians of public morality, he always felt that the public could look to them to give them information beforehand of better times to come, because they knew everybody's business secrets, and they always hoped that they could tell them that bright times were coming, and that they would not be as pessimistic as the Chancellor of the Exchequer occasionally felt it his duty to be when he anticipated a long time of depression. They all agreed that the times were absolutely deplorable; he supposed in America they were even more so than here. In regard to the toast he was proposing, he said they would agree with him that they were toasting not merely the office but particularly the men themselves who did such honour to the profession to which they belonged. It would be superfluous on his part to speak personally of those gentlemen. It was a toast that one revered and for which one had tremendous respect. His hearers knew that the gentlemen whom they were "toasting" stood for that greatest attribute of English life, viz, Justice. That was their life's work. They honoured and respected them for it. (Hear, hear.)

Mr. JUSTICE HAWKE, in responding, said he must thank Alderman Thompson for the very kindly references he had made to Mr. Justice Lawrence and himself. Alderman Thompson was kind enough to say that it was the men as well as the office that he toasted. He (Mr. Justice Hawke) could only say, and he was sure he could speak for Mr. Justice Lawrence as well as for himself, that they appreciated what he had said, and also the princely kindness with which they had been treated that evening. He joined with the Lord Mayor in regretting that Mr. Hannah could not be there that night. He and his brother Judge, Mr. Justice Lawrence, too, had their anxieties at the present moment, because it might be remembered that only two days ago one of the most honoured of all the Judges—he supposed certainly the most honoured of the puisne Judges—Mr. Justice Avory, was suddenly stricken down with indisposition. He (Mr. Justice Hawke) trusted that, in spite of his advanced age, they might soon see him back amongst them, for he was a man they could ill spare. He had wondered that evening why on an occasion like that the toast of "The Bench and the Bar" should be honoured at all, and he wondered still more that it should be put in the forefront of the evening's programme. He thought, perhaps, one reason was the very close association between the profession of accountants and the Bench. He was old enough to be able to say that they of the Bench could recognise gratefully the vast improvement that had taken place in his lifetime



amongst expert witnesses, particularly in the profession of accountancy. It was of vast assistance to the Bench and the Bar to have a profession such as that of the accountants, so well trained and well cultured, rendering them all the help they could. It was quite a different thing from what it was a good many years ago, when he first practised at the Bar. Of course there were things that accountants knew which were closed books to other people. In regard to various matters accountants often assisted the Bench. The position of the Bench was not an easy one; they had to deal at times with difficult topics. When they went about the country on assize work, however, everybody, wherever they went, was kind to them, including always the Incorporated Accountants of Liverpool. (Hear, hear.)

Mr. ERNEST E. EDWARDS (Parliamentary Secretary of the Parent Society), who responded for the Bar, placed courage amongst the first qualities of members of the Bar. Another characteristic of the Bar was equanimity. A third characteristic, and the most important of all, was the incorruptibility of the Bar, and still more of the Bench. There never was a time when it was more essential than the present for commercial and professional probity that the quality of incorruptibility should be established once and for all in our commercial spheres. The Bar had a very close link with the profession of accountancy. The motto of the Bar was very similar to that of the Society of Incorporated Accountants, "Reliability and Integrity"—"Fides atque integritas." (Hear, hear.) He trusted that the relations between the Bench and the Bar and the accountancy profession would continue to be harmonious and of mutual advantage. Mr. Edwards added that he would like to refer to the excellent work of Mr. Bertram Nelson, the Hon. Secretary of the Liverpool Society.

LORD MARKS, C.B.E., submitted "The Society of Incorporated Accountants and Auditors." He said some of them had more behind them in life than they had in front. Unfortunately when they had passed what had been claimed to be the "allotted span" for man they were inclined to get pessimistic and to imagine that the future must be dark, and looked back only too often to the times when they imagined things were brighter than they appeared to-day. Their Society being in its prime, they had naturally associated with the whole of their composition and make-up, expectancy, rather than despair. They had "yet to be," because that which they had done, up to attaining their prime, had been to acquire that experience which enabled them to look forward to the future not only with confidence but with assurance that that which they had passed through was going to be a guide, sometimes a warning, and a direction for the remaining years of their existence. But a society had no life that was terminated by the passing on of its members; it passed on, it ran from life to life, and from age to age. That was so with their Society, which had 6,000 members. That Society, with the experience associated with 6,000 men, now concerned in maturity of experience, should lead their gathering that night to feel that, while the days were dark, there was still great hope for the future. They were concerned with industries at the birth, they were concerned with them at the marriage, and, unfortunately, they were concerned with them at the death, because then they came in as liquidators or receivers. They knew, more than any other body of men, the difficulties associated with business. Auditors associated with companies, and accountants generally, knew the risks associated with investors, who to-day were having a sad and sorry time for having been not properly guided with many of their investments in the past. Their Society stood, more or less, as a beacon and as a guide. It stood as

a guide because there was concerned with that which they did a purpose not based upon professional desires, because they were an incorporated body not simply to make fees for themselves but to protect those who knew nothing about business, by reason of the examination and the certificates they gave in connection with the businesses that they examined. Integrity was the word that ought to be in the life and associated with everybody connected with accountancy, and particularly those concerned with auditing. So, that night the guests were gathering there, all of them, more or less, relying upon the accountants. What accountants did was done from a judicial and impartial point of view in connection with the work they might undertake for clients. They were not solely the servants of those who engaged them, to make a cloak or shield, or screen, over that which they had examined. It was their duty to give a certificate that the public could rely upon. They had a duty, not only to their clients, but to the public, to protect them, as well as serve their clients. They stood in a different position to that of an accountant associated with a firm, or a professional man on the staff of a company. They were the buttress, the barrier between what might be fraud on the one part, and confidence misplaced on the other part. They guided and protected their clients, and they had to warn, too, those whom they served, that "so far can you go, but if we are to help you, you stop there, because otherwise our certificate will not be given." (Hear, hear.) The whole world was suffering because of the rash experiments that had been undertaken, not by one country, but by all, until to-day he would be a bold man who could point to any one country and say "That is the country that has made the worst mistakes; we have got to avoid what that country is doing." If they were going to repair themselves they were all of them, the whole world, dependent upon that which was done elsewhere. The day had gone by for any nation to think it could live alone. The day had passed when any man could imagine that he lived alone. From the time when the cry went up from the land, those thousands of years ago, "Am I my brother's keeper?" the same cry had gone up from many men since. As accountants they knew what was being done in this country in business; they knew what was wrong in business, and their guests were there that night to tell them as accountants what they expected from them and what the public expected from them, so that they should feel that, more than ever, they were not simply fee-earners for that which they did for others, but guides for the unwary, and helpers for those who could not know what they knew of the businesses they examined. He gave them that toast from the point of view of one who had had some experience of the ups and downs of industry. He had seen a great factory, two months ago, employing 3,000 people, and now closed, and the men and women unemployed, because of there being no demand for their products. These were depressing times, but there was something they were looking forward to, namely, a gathering of all the best commercial men in all the world to see what could be done outside political and financial influence, all grouped together, not with an idea of helping Germany, Japan, America or France, but realising that when one nation goes down to-day another nation is going to suffer, too. It was like a row of bricks: if they knocked down the end brick, it was only a question of time for all the others to go down, too. In conclusion, Lord Marks said it might be good that an outsider like himself, both a commercial and a professional man, should come and talk to them. He believed that the work of the members of the accountancy profession was calculated to make the world safer both from the industrial and commercial point of view. (Applause.)

Mr. E. CASSELETON ELLIOTT (President of the Society of Incorporated Accountants and Auditors), who responded, said he was extremely sorry for the absence of Mr. Hannah. For many years Mr. Hannah was the Hon. Secretary of the Liverpool Society. He brought it to a high pitch of perfection, and only retired from the position of Hon. Secretary to become President. He took care before he retired that the position of Hon. Secretary should be in good hands, for he arranged that Mr. Bertram Nelson should take his place. He thought all present that night would agree that his judgment was not misplaced. In Mr. Bertram Nelson the Liverpool Society was very well served. (Hear, hear.) Lord Marks had re-stated their faith very definitely. In regard to integrity, it was one of the words of their motto, and a word on which they laid great store. They were most anxious to do that which was right—"to tell the truth, the whole truth, and nothing but the truth." (Hear, hear.) Mr. Justice Hawke had referred to the Society as one for which he had the greatest admiration and respect. They were very proud that they had such a number of members of the Society of Incorporated Accountants. The Liverpool District Society was a vigorous one; they had lectures for their students and members in Liverpool, Chester and Southport, which were very well attended, and given by distinguished men. In addition to that they had study circles, which he thought represented a most important feature of the training which they gave to their students. That was a feature which other societies should emulate. The other day he was attending a prize distribution of the London Chamber of Commerce in the Mansion House. The gentleman who was distributing the prizes was Mr. Ramsbotham, the Parliamentary Secretary to the Board of Education. The points he made were four. The first point was that of judgment. Every accountancy student must exercise judgment. He used that word with bated breath, but he hoped he was not wrong when he said that judgment was founded upon fact. It was absolutely essential for them as students—and they were all students, however old they were—to base their judgment upon the facts before them. They might often have those facts distorted; some people might suggest that the facts read differently than they actually did, but, after all, they had to get down to relevant facts, which affected the situation, before they could obtain a sure judgment. The second point was initiative, which was a very important point in an accountant's career. The man who was to progress in the profession was he who had done something off his own bat, and had found some feature which had never been presented before. Let them follow their audit programme, but when they had finished that, let them sit down and think whether there was not some other point which might be well worth investigation. The third point was breadth of vision. It was essential for an accountant to have a broad mind. The fourth and final point was consideration for others. A great thing was to bear in mind that other people had rights just the same as they had. Nothing gave him greater pleasure than for his former clerks, who had been abroad, to come back and tell him what a happy time they had with him in his office. He was going to put it to his hearers that night that if their clerks could come back to them and say what a happy time they had had in their office, then they had done their duty by their clerks, and their clerks had done their duty by them. One of the essentials for an accountant to succeed was to have personality. Mr. Ramsbotham had answered that point for him, because if one had judgment, initiative, breadth of vision, and consideration for others, he had the basis of true personality. (Hear, hear.)

Mr. W. H. LEIGH SMITH, F.S.A.A. (City Treasurer of Liverpool), offered "Our Guests." He said on no occasion

had the Society been more fortunate than that night in the matter of its distinguished guests. (Hear, hear.) Professional accountants, whether Incorporated or Chartered, did not claim infallibility, for they were essentially modest men. They stood, however, for fair dealing and justice.

Mr. H. G. ALEXANDER (President of the Liverpool Society of Chartered Accountants) responded. He said the times through which they were now passing were very difficult. Lord Marks had spoken of accountants as being present at the birth, the marriage, and the death of industry. They could genuinely say, however, that in spite of the fees which attended the death-bed rites of industries, they would very much prefer to be acting as midwives to industries. (Laughter and hear, hear.) The best brains were considering the present world conditions, but unless those brains could think in an international way, as well as a national way, those conditions would not improve.

Mr. RICHARD D. HOLT (Chairman of the Mersey Docks and Harbour Board), who also replied, said, alluding to Lord Marks' speech, that he wished the man who had a thousand million dollars, which he did not know what to do with, had been sitting next to him (Mr. Holt) at that dinner; he could have told him what to do with the money. (Laughter.) If he had allowed him (Mr. Holt), he could have paid off the debts of the Dock Board and the Corporation, and still have had enough for a good dinner and a happy evening or two. (Laughter.)

Mr. C. HEWETSON NELSON proposed the health of "The Lord Mayor."

The LORD MAYOR, in acknowledging the compliment, said he could bear testimony to the enthusiasm of Mr. Bertram Nelson, the Hon. Secretary of that Society. It was through Mr. Nelson that there were so many young members of the Society. In closing his Lordship added that the usefulness of accountants was being increasingly recognised.

## CORPORATION OF ACCOUNTANTS.

The annual dinner of the Corporation of Accountants was held at the Mayfair Hotel on February 24th. The President, Mr. A. Andrew Gibson, was in the chair, and the guests included the Earl of Lauderdale (Honorary President of the Corporation of Accountants), Lord Plender, G.B.E., F.C.A., Mr. E. Cassleton Elliott (President of the Society of Incorporated Accountants and Auditors), Mr. H. L. H. Hill (Past President of the Institute of Chartered Accountants), Hon. George Colville, and representatives of other professional organisations.

After the loyal toast, Sir Harold Downer proposed "The Houses of Parliament," to which Sir George Hume, M.P., replied. The toast of "The Accountancy and Legal Professions" was proposed by Major Richard Rigg, responses being given by Sir Alfred Baker and Mr. A. Charlton Curry, M.P. The Hon. President of the Corporation, the Earl of Lauderdale, submitted the toast of "The Guests," on behalf of whom Mr. W. Craig Henderson, K.C., and Sir Montague Cox replied.

The dinner concluded with the health of the Chairman, Mr. A. Andrew Gibson, proposed by Mr. James MacMillan, M.A.

## Incorporated Accountants' London and District Society.

On March 31st, 1933, a Reception and Dance will be held at Incorporated Accountants' Hall at 8.30 p.m. Members are asked to make early application for tickets to the Secretary at Incorporated Accountants' Hall.



## Swansea and South-West Wales District Society of Incorporated Accountants.

### ANNUAL DINNER.

The annual dinner of the Swansea and South-West Wales District Society of Incorporated Accountants was held at the Hotel Metropole, Swansea, on February 17th. The PRESIDENT, Mr. R. A. Wetherall, F.S.A.A., occupied the chair, and the guests included the Mayor of Swansea and Port Talbot (Councillor Dan Evans, J.P.), Ald. K. S. Wehrle, J.P., Mr. R. Wilson Bartlett, Newport (Vice-President of the Society of Incorporated Accountants and Auditors), Mr. Norman E. Lamb (President of the South Wales and Monmouthshire District Society), Mr. A. Owen John (President of the South Wales and Monmouthshire District Society of Chartered Accountants), Mr. Lewis Jones, M.P., Principal C. A. Edwards, D.Sc., Councillor J. Oliver Watkins (President of the Swansea Chamber of Trade), Councillor W. T. Mainwaring Hughes (President of the Swansea Chamber of Commerce), Mr. D. A. Prosser (President of the Swansea and District Centre of the Institute of Bankers), Mr. J. Evan Rowlands (President of the Swansea and Neath Incorporated Law Society), Mr. C. C. Vivian, Mr. W. H. Ashmole, M.B.E., Mr. G. Brinley Bowen, Mr. J. R. Tait (President of the Chartered Insurance Institute of Swansea), Mr. Percy H. Walker (Hon. Secretary of the Incorporated Accountants' South Wales and Monmouthshire District Society); with Mr. T. O. Morgan (Hon. Secretary of the Society) and Mr. A. W. Sleeman (Hon. Treasurer).

Mr. LEWIS JONES, M.P., proposing "Our Civic Governors," referred humorously to the change in the form of the toast on which, he said, the framers were to be congratulated for their craft and cleverness. He had long been of the opinion that the man who really mattered in civic government was the official, who, satisfied in his mind that his aldermen and councillors, with the exception of the Mayor, were puppets, controlled them—just as it was said the permanent officials in Whitehall controlled the House of Commons. Swansea people ought to be sincerely proud of the high standing and ability of her chief officials. Ever since he came to Swansea the Borough Treasurer (their President, Mr. R. A. Wetherall) had given to the town the best that was in him, and they knew from occasional reports in the Press that he was fearless, when it became necessary, in the interests of the finance of the town. South Wales should do more to encourage its own industry by earmarking portions of contracts for local production, wherever possible. In this way they would supplement the campaign of the South Wales Industrial Development Council.

The MAYOR OF SWANSEA, in his reply, suggested that everybody was blamed in municipal life except those who made the laws. He agreed heartily that Swansea was blessed with a first-rate Borough Treasurer, and that the Corporation as a whole had as good a body of officials as any other borough in the Kingdom. Mr. Wetherall's treatment of a committee which had overspent despite his warnings was not only straightforward but gentlemanly. Referring to Mr. Lewis Jones' remarks, he said the Corporation could not carry the desired insistence on home

production to the point where it interfered with the best interests of the town in securing loans. They had to make it clear that when they asked local people to supply goods they must compete with the outside contractors.

Alderman K. S. WEHRLE, who also responded, expressed pleasure that Port Talbot's steel industry was doing very well, that the Corporation had been able to ensure the supply of local bricks for its latest big housing scheme, and that the Borough Treasurer there also was an Incorporated Accountant.

Dr. C. A. EDWARDS (Principal of the University College of Swansea), proposing "The Society of Incorporated Accountants and Auditors," expressed profound admiration for the work of accountants that had come within his cognisance, but had fears for them if ever the ideas of so-called technocracy came to be applied. He shuddered to think of the prospects of their future members if, instead of thinking in terms of L. s. d., they had to include in their balance a perfect account of such energy units as the therm, the calory, the kilowatt hour, and various other factors of a similar kind. For such a development he thought they would need to extend their knowledge and experience far beyond the normal training they now got. So he had in mind—and he felt happy to believe the Society itself had also—the possibility of increasing standards of attainment before members' admission and the possibility, thereby, of increasing the status of the members. If that was the case, he offered a few words of advice. They should guard against what was becoming such a common feature of professional life—over-specialisation. In that connection he could not help feeling that they ought seriously to consider the possibilities that were opened up to all professional bodies in these days of linking up in some way with the educational facilities that were to be found within the reach of almost all in most districts. He could not but think that they would be well advised to endeavour to couple their training with the universities or university colleges that could be found within easy reach of them. It seemed to him they might adopt a method so commonly followed in the legal profession of excusing a year of articles for a corresponding year spent in general education at one of the universities. In that way, he thought, they would cultivate in their younger members the possibility of extending their vision in ways that perhaps could not so readily be acquired by the ordinary means now adopted. If ever they—if ever the world—needed vision, it was now. And the world needed it particularly amongst those people who were dealing with the hard facts of life and questions of L. s. d. In this way the students would see other aspects of life. Quite apart from the purely technical or general training, they would come into contact with people whose objectives in life and with professors whose ideas—if understandable—were absolutely different from their own.

Mr. R. WILSON BARTLETT, J.P., F.S.A.A., responding to the toast, expressed pleasure at attending, because this was the first opportunity he had had of visiting the Swansea and South-West Wales Society since his colleagues on the Parent Council did him the honour of electing him Vice-President of the Society, and also because the occasion recalled memorable times when he was in residence in Swansea some 30 years ago. He was substitute for the President, Mr. E. Cassleton Elliott, who was responding to a similar toast that evening in the city of Liverpool. The President had expressed regret that the two dinners had clashed, and hoped that he would be able at a later date to visit Swansea. The organisation of the Society was centred in London, but there were perhaps 30 Branches and District Societies governing the professional destinies of over 6,000 Incorporated Accountants in all

parts of the country and in the British Dominions. Personal touch with the members in all districts was necessary in order that the policy of the Society might keep abreast with the urgent requirements and problems of commerce and industry. Before mentioning one or two of these, he reminded the members of the importance of the International Congress on Accountancy to be held in London in July. They would remember that the last of these International Congresses was held some four years ago in New York, and the previous one four years previously in Amsterdam. It was now Britain's turn, and the delegates would come from most of the European countries, U.S.A., and the British Dominions. The President would be Lord Plender, and the Vice-President Sir James Martin, one of their own Past Presidents and their good friend and adviser. An extremely interesting list of papers would be submitted for discussion, covering many subjects of international and commercial importance, by British, American, German, and Dutch accountants who would include four of the Society's members. The Council hoped that the Congress would be supported by a very large number of Incorporated Accountants from the District Societies. He was very interested in Dr. Edwards's suggestion as to the advisability of allowing their students to proceed to the university for one year in lieu of a year's articles. Dr. Edwards would no doubt be aware of the regulation that a graduate in a university was allowed a reduction of two years of his articles. As to the other point put by Dr. Edwards, it might be interesting to him and to members present to know that a committee of the Society's Council was at present considering various amendments in the regulations relating to the Preliminary examination and also the very point raised by Dr. Edwards. Turning to matters of public policy, Mr. Bartlett said that there seemed to be a slight revival in trade and business—but only very slight—and increased confidence was much needed. In creating this the spend-for-employment schemes could be valuable. Mr. Bartlett also eulogised the services of Mr. T. O. Morgan, their good friend and his, who was well known at headquarters for the quality of his work as Secretary of the Swansea and District Society. A great deal of the success of the Society was due to his wonderful efforts.

In the absence, through indisposition, of Mr. A. E. Goskar, F.S.A.A., Vice-President of the Society, Mr. W. H. ASHMOLE, M.B.E., gave "Our Guests," saying the Society was delighted at the honour done to Mr. Wilson Bartlett by the Parent Council. Having no direct representation, the Swansea members regarded Mr. Bartlett as representing them as well as his own District.

Mr. W. T. MAINWARING HUGHES, replying, praised Mr. Wetherall's services to Swansea, mentioning the town's pleasure at the Treasurer's forthcoming accession to the Presidency of the Institute of Municipal Treasurers.

Mr. A. OWEN JOHN, F.C.A., also replying, added a tribute to Mr. Wetherall for his understanding of his important position; they had a feeling of great respect and deep admiration for him.

Mr. NORMAN E. LAMB, F.S.A.A., proposed "The District Society," and said that during recent years its membership had doubled, its student membership had increased, and its educational programme was second to none. Mr. Morgan could be described as the ideal Secretary, doing his best regardless of the limelight. Mr. Wetherall had not only high technical equipment but was a man of sterling character, serving no private ends.

The PRESIDENT, replying, acknowledged the cordial reception of the toast and expressed his gratitude for the services of his deputy, Mr. T. O. Morgan, as Secretary to the Society from its inception.

## The Most Tragic Book-Keeping in History.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London and District by

Mr. LEONARD J. REID,  
City Editor of the "Daily Telegraph."

The chair was occupied by Sir STEPHEN KILLICK, J.P., the President of the Students' Society.

Mr. REID said: Most of the lecturers, I presume, who are honoured by your invitation to address your Society, are drawn from the ranks of those who are competent to talk to you with inside knowledge of the technicalities of your profession, and to develop ideas which only those who are familiar with your profession could venture to suggest. I confess that I am not competent to talk to you on these lines, and I have, therefore, chosen a broader subject, which, however, as I hope to show before this evening is over, is one which is not only of supreme and urgent importance to Governments and to every individual in every country, but is also one which merits in a peculiarly cogent manner the attention of the finest brains which your important profession commands.

The title which I have chosen for this lecture suggests that I intend to talk about War Debts. It is not, however, my purpose to inflict upon you a long and intricate statistical survey of the origin and results of what the British Government's December Note described as "Tragic Book-keeping," but rather to trace on more general lines the story of how the present position has come about, what lessons that story has in connection with what one might call the accountancy side of public finance, and to see what are the position and prospects of the creditors and debtors in this War Debt equation; to try to determine what are, not only the practical possibilities, but the just claims based on current conditions, as well as on past history, and how, in the interests of all, a fair and permanent reconstruction or revision scheme can be devised. I wish then to pass from the question of War Debts themselves to the vaster problem of the enormous accumulation, not only of international but of internal public and private indebtedness in all countries, and the state of affairs into which the world has been brought, in view of this mass of indebtedness, by reason of the unprecedented fall in the level of commodity prices.

Although I have disavowed the intention of proceeding too far into statistical inquiries, the use of figures cannot be altogether avoided in an approach to the understanding of the War Debt problem, but I will make this part of what I have to say as brief as possible.

When the War broke out, in August, 1914, it was almost the universal assumption that it would be over by Christmas, and no one at that time envisaged the possibility of nations carrying the vast burdens of financing which in the end they proved capable of bearing. It was known that, of the early combatants, Britain alone possessed the financial strength capable of financing a campaign of any substantial duration. As it happened, the War was only a comparatively few weeks old when the necessity had to be recognised that Britain would have to finance a large portion of the whole of the War effort, not only for herself and for the whole British Empire, but also for France and Belgium and other Allies. Very soon the British Government was answering the call of many allied countries for financial assistance, and, at the outset, although in the frantic efforts to



repulse Germany's initial rush East and West all material resources were used to the best advantage, irrespective of their ownership, these measures of financial assistance were from the first regarded not as the pooling of financial resources, but as loans that would have to be repaid afterwards. It is really in this method of accountancy, for which presumably our Treasury must bear a share of the blame, that what has now become the tragedy of vast inter-governmental obligations had its origin. Once started, the system was bound to be pursued and was naturally adopted by America when, in 1917, she entered the world conflict.

I will try to cut a very long story short. Between the beginning of the War and the spring of 1917, when America came in, this country lent to the governments of her European Allies £827,000,000, which formed part of a total War expenditure up to that date of £4,317,000,000. In the main, the money advanced to Allies was raised out of the pockets of the British people; but since, in the years before America became a belligerent, it was necessary for Britain and France to make very large purchases in America of all essential War materials, and since at the same time, with Britain's man-power concentrated in the trenches and upon production for war purposes, her export trade had dwindled, the strain on sterling exchange was intense. As she was financing these war purchases in America on behalf both of herself and France, it became necessary to raise loans in America, but these were raised in the open market, and up to April, 1917, no debt whatever was incurred to the Government of the United States. During this period, Britain and France raised a joint loan of \$500,000,000 for purposes of pegging the exchanges, while Britain, obliged to resort to supplementary measures, sold £190,000,000 of gold to America, and mobilised dollar securities in the hands of private British holders to the tune of £172,000,000. By such means it was possible for Britain to raise in New York further loans amounting to \$800,000,000. With these loans raised by Britain before America came into the War we need not concern ourselves, for they have been repaid, I think, to the last penny, but they are worth mentioning as throwing light upon the scope of the financial effort which Britain made in the early War years to finance the whole Allied cause. There if another point in this connection which is too often overlooked, and that is that from the very outset of the War the British Government set the excellent example or adopting a policy (which was afterwards followed throughout) of paying as much as was possible of the War costs out of Revenue. As early as October, 1914, a supplementary Budget was introduced increasing taxation by £62,000,000, and this path of sound finance was so consistently followed that although the cost of the War to Great Britain mounted to £1,000,000 a day by the autumn of 1914, to £4,500,000 a day by the autumn of 1915, and to £7,000,000 a day by the spring of 1917, it was found at the end of the War that the British Government had paid 28½ per cent. of its total expenditure out of taxation paid by the British people. I merely mention these facts to show that during the War we were not guilty of loose borrowing, but only borrowed to the extent which was vitally necessary.

In pursuance of my promise not to burden you with a shower of detailed figures, I will cut the rest of the statistical story as short as possible. When America entered the War, in the spring of 1917, her armies were not ready, but she brought her financial weapon into play at once. Within a few weeks loans to the extent of \$900,000,000 were authorised by Congress for advances to the Allies, and that method of accounting—namely, to list up these figures as repayable loans—was

pursued, as was admittedly inevitable after the early history of War finance. But the methods adopted by the United States Government were not, in several respects, favourable to Britain. Having borne the brunt of financing the biggest War effort in history for two and a half years, Britain suggested that America should take over the financing of all the purchases which the Allies were compelled to make outside their own countries. America did not see her way to consent and confined her offer to advancing loans merely in connection with the purchases made by the Allies actually in the United States market, and in certain cases the guarantee of the British Government was required before such advances were made. The result was that, apart from financing her own effort, which had by this time grown to colossal proportions, the British Government had also to continue financing a large part of the foreign purchases of the Allies which were not made in the United States. These circumstances served to make Great Britain's position in the War Debt equation *vis-a-vis* other countries very much more unfavourable than it would otherwise have been and that is a point that should be taken into consideration in any settlement.

Be that as it may, when the period of War lending and War borrowing closed (which was some time after the War), statesmen had to contemplate the following vast figures, which were increased greatly after the Day of the Armistice, by necessary borrowings for war liquidation, reconstruction, relief, &c. The European Allies owed to the United States not less than \$10,000,000,000, of which Britain was responsible for \$4,000,000,000; the other Allies owed Britain £1,600,000,000 and owed France just over £500,000,000.

Within a year after the conclusion of the borrowing process, the British Government realised the hopelessness of these vast obligations, and suggested to America that there should be a complete all-round cancellation, which would have meant that Britain would have forgiven £1,000,000,000 of debts owing to her in return for cancellation of about £850,000,000 owed by her to America. The United States Government refused and they had to be funded. So Britain, with something very much like a pistol at her head, set out on the long process of funding, and from that day began the troubles which have now developed into an impossible and intolerable situation.

The process of funding between the creditor and debtor nations lasted from December, 1922, until well into 1925, and for three years Britain was paying out to America before she received one single penny from her debtors.

There are a few points to which I wish to draw your attention in connection with these various funding schemes. Let us take first of all, the scheme which is engaging our most immediate attention, namely, that agreed upon between this country and America. In that scheme, an interest rate of 5 per cent. was adopted as the basis of calculation. If that is accepted America can claim that the total repayment demanded from Britain over the full 62 years covered by the Schedules represents a cancellation of 28 per cent. of the original debt. But this method of calculation is not altogether accepted in this country. It is argued that as a rule the American Government can borrow at a much cheaper rate than 5 per cent., and it is at least worth pointing out that if the rate of 3 per cent. had been adopted—a rate which seems more reasonable to English eyes—then the total repayment demanded from Britain would actually exceed by some 7 per cent. the total of the money borrowed, together with accumulated interest.

But however that may be, a 5 per cent. basis was adopted generally, and it was applied to all the funding schemes. Adopting that basis, we find that while America, as I have said, "forgave" us 28 per cent. of our debt, she forgave on the same basis 58 per cent. to France, 79 per cent. to Italy and 46 per cent. to Belgium. In other words, she rated our capacity to pay higher than that of the other nations, and so we received from her a rather dubious compliment instead of generosity.

Still adopting the 5 per cent. basis, the following figures may also be of interest. In the whole of the funding schemes, America forgave her debtors 40 per cent. of the total, while Britain, in more forgiving mood, cancelled 70 per cent. of what her European Allies owed her for loans for the prosecution of the War.

Now I want to turn to a rather different aspect of the problem. Most discussions on these War Debts appear to assume that what we borrowed from America was hundreds of millions of hard cash. In actual fact we did not take the money out of America. All that we borrowed from the American Government was actually spent on the produce and manufactures of that country; in fact, we borrowed not money but commodities of every type necessary for the prosecution of the War, particularly munitions, steel, cotton and wheat. Judging by official American calculations, the average price-level of the commodities which we then had to buy had, since the loans were raised, fallen by substantially more than 50 per cent. Full repayment, therefore, of the debt would represent the replacement of more than twice the amount of the actual commodities which America lent us. That replacement on such a scale should be demanded appears to be scarcely just. And, by way of parenthesis, I would like to suggest another aspect of these loans into which inquiry seems to be required—an inquiry which, if I may venture to say so, your Society would be admirably fitted to conduct. The question which I have in mind is the method of accounting pursued in connection with the British War purchases in America, made out of the funds placed at our disposal in New York. How were the goods priced? At production price? Or at a price yielding reasonable profit to the producer or middleman? Or at a price yielding what one might almost describe as a monopoly profit? In so far as profits were made by the production and supply of commodities to Britain, the American Government must have received very large sums into her Treasury from the taxation of those profits. I confess, however, that I have not been able to investigate this subject, which is one of extreme intricacy, and I think you will find that a uniform practice was not adopted all through. Nevertheless, it would be interesting to establish the amount of revenue which America received from the mere fact of our loan expenditure, and I submit that any figure arrived at should fairly be taken into consideration in discussions regarding a just revision.

There is only one other point I wish to make in connection with this section of the subject, and it is one which I touch but briefly, because to lay stress upon it causes in American minds an irritation which no one wishes to revive who sincerely desires an amicable settlement. This is that, since we were fighting in the same cause, it would have been a matter of justice to pool all resources, and when counting up the proper shares of the cost at the end of the War, to give full weight in the calculation to the vast expenditure of human life which Britain and her European Allies suffered before the United States joined in.

Before we come nearer to the question of Debt revision, which is now under discussion between the British and

American Governments, and review the situation as it presents itself to mass opinion on each side of the Atlantic, I want very briefly to outline the answer to two questions. Firstly, how is it that these huge inter-government debts were actually paid for some years, and why is it that they have become impossible of payment now?

In the simplest possible terms, payments across the exchanges of these obligations for a few years was made possible merely because the creditor countries, in particular the United States, were lending new money to the debtors. In a word, the whole basis on which the previous possibility of continuing these payments rested was the confidence of the American investor in Europe as a sound commercial and remunerative investment proposition. Well, ladies and gentlemen, looking back now, even without knowing the history of the past year, any one of us could see to-day that that basis was always so flimsy that any shock might break it. In the unstable circumstances of the post-war world it was bound to be broken, and it was broken. The Wall Street crash of the autumn of 1929 created new embarrassments and a new mentality for the American investor. He had very much less to lend abroad, and a tremendously increased suspicion of intending borrowers. The flow of new American capital to Europe, which has been a mighty river, steadily declined under the drought of misfortune and suspicion into a trickle; and when, in the summer of 1931, the first major manifestations of the world crisis occurred in Europe, even the trickle ceased altogether. It cannot be too often repeated that the transfer of inter-governmental payments of this kind can only be made in the long run in one way, and that is in the form of goods and services. But even if the creditor countries had followed policies far more favourable to the acceptance of large volumes of foreign imports, even then nothing approaching the scale of the war debt schedules in the post-war years could conceivably be carried out for more than a very limited period. For a few years America lent to Europe or spent in Europe the money wherewith to pay her commercial and political obligations, but even then the result of these operations was such as to lay the foundations of the world disaster. When American lending ceased, the whole system of inter-governmental payments became completely impracticable and the whole scheme of commercial payments between nations was thrown into jeopardy. That, as history will record to his unlimited credit, was promptly realised by President Hoover, who at once realised the necessity for a moratorium on all international political debts, and lost no time in proposing such a measure to the world. In passing, one may mention that the reasons which caused President Hoover so boldly to declare a year's holiday from war debts in 1931 are not merely as strong to-day as they were then, but are a great deal more than redoubled in force.

In answering the first question, we have surely answered the second. For debtor nations, with very limited supplies of gold, to attempt to continue to transfer enormous sums of cash to a creditor who refuses, through her tariff policy, to accept the goods which the debtor nations could produce and ship overseas, is just about as hopeful as the attempt of a child of four to make a century in a Test Match against the body-line bowling of Larwood.

So the War debt payment schedules between Europe and America, completely stultified not merely by inevitable economic causes, but also by the circumstances of the devastating fall in the commodity price level, which indeed they themselves have helped to create, have come to an end. Whether or not the American Democracy agrees to revise down to practical limits, the democracies of Europe have made up their minds that the limits of possible payments are small, and that they will not sanction any dangerous pledges to exceed practical limits.



So—confining our attention at the moment to this country and the United States—creditor and debtor meet to discuss methods of reconstruction which will be fair to both sides and helpful to all those larger issues on which the prosperity of both depends.

It happens, or will happen, I suppose, to all of you to be consulted by companies which have borrowed and have incurred liabilities which appeared at the time when they were contracted to be reasonable and proper in accordance with the views of the future then generally accepted. You may be asked also to advise upon the steps that should be taken both to assure that justice is done to all the various parties involved, and also to assure that the undertaking in question should be left in a position to take advantage of any opportunities that might arise in the future for effective and profitable advancement. That surely is precisely the angle from which the problem of the Anglo-American debt settlement at Washington should be examined. Everyone, I venture to think, who has had experience of negotiations of this kind, should constantly remind himself that in the forefront of his mind must always be the human factor. What is the point of view of the creditor and what of the debtor? How much will the shareholders, being mere human beings, stand for? What is the position in which each party to the transaction finds himself?

With regard to the British position in this Anglo-American war debt question, I have probably said enough already. There is no difference of opinion in this country regarding the urgent necessity of drastic revision in the interests, not only of ourselves, but of America and the whole world, and to those who wish to follow the argument in detail I would commend a careful reading of the Note which the British Government addressed to President Hoover last December. But if there is to be any hope of amicable and practicable settlement in any matter of this sort, whether the affair be concerned with a company, or a local authority, or a State, or an Empire, it is essential that each party should understand the other's point of view. I submit to you that, while we are very fond of emphasising the deep and creditable understanding of the whole problem possessed by American leaders in politics, finance, economics and banking, we, in this country, are apt to be, if I may say so, ignorantly and unjustifiably intolerant of the attitude of Congress and of the mass opinion which lies behind Congress.

I would like you to try for a moment to transport yourselves from this famous hall to a cabin or a farm-house in the Middle West of the American Continent. How would the problem appeal to you then? Your Government has greatly increased your taxes, but still the Budget shows a huge margin of expenditure over revenue, and you are threatened with more taxation which you cannot bear. What would you say to your leaders if they told you that the only way out of your troubles was to forgive foreign Governments all the money they owe you, and thereby create a far bigger deficit to be covered by yet more taxes? You would say, at first sight, that your political leaders were mad; and it would be millions like you, scattered about the vast American Continent, with whom, through the representatives you sent to Congress, the decision of the question rests. Can you wonder, then, that the American politicians, quite apart from the particular political difficulties of the moment, are not in a position to agree to let off their debtors too much of what they owe?

I wonder very much whether there is anyone in this room—including, of course, myself—who realises, or who is anywhere near realisation of the present position of the United States.

Perhaps you will allow me to quote from a graphic letter recently received in London. It is from a well known American writer to a close friend. It is not propaganda. This is the extract:—

"The whole country (United States) is just hanging on, enduring somehow from day to day, with feebler and feebler little gusts of hope that conditions will change for the better. But, as you know, they always change just a little for the worse. In September I borrowed a little old Ford and went to New York. I had to see my agent and publishers, and this was the cheapest transportation. I went up through Iowa, Minnesota, Michigan, Wisconsin, across at Sault St. Marie, then the width of Ottawa and down to New York. Going and returning, I crossed 10 States, and the whole country was like Central Europe in 1920, in spirit. I never saw anything like it. It just isn't credible, the transformation in a country that was so lavishly prosperous, so busy and energetic, only three years ago.

"One of the strangest things was driving sometimes for hours over our marvellous cement highways, and not seeing one single other car. I had the most oppressive sense of stillness and desolation—stronger even than the sight of cold and smokeless chimneys. I'd never realised how much, how closely, movement is bound up with money; how poverty makes for immobility. The phrase, 'everything at a standstill,' really means stillness, a paralysis of movement."

That, ladies and gentlemen, is a picture of the great and rich country, on the pinnacle of riches a few years ago, whom we are asking to let us off our debts.

We have seen that the continued transfer of vast inter-governmental payments of political debts, with no creation of wealth behind them, has become fantastically impossible. We see, also, evidence every day of the growing difficulties, which are mounting constantly, of the transfer of funds from nation to nation to satisfy purely commercial obligations. But I want you, if you will, to look at an even broader and even more far-reaching aspect of the world financial situation. It is not merely the international, but the internal load of recent borrowing in every civilised country in the world to which I should like to draw your attention for a minute. Every nation, every State, every locality, I might almost say every village, has, during the dire times of stress through which we are passing, been borrowing up to the uttermost hilt of its credit in the hope and expectation that the end of the depression would arrive in time to solve the problem of the redemption of the mortgages on the future, which alone have made such borrowing possible. But instead of an up-turn in the depression, there has developed steadily a deepening of the depression and a continued fall in the price level, which has aggravated, instead of relieving, the burden of indebtedness. To express the situation in a phrase, the world has been eating into and living on its future, and the future which it hoped for refuses to arrive. If prosperity is lying just around the corner, almost any device of emergency finance may be justifiable. But in the past few years, we have turned round many corners and found that the prosperity which we have expected to meet was not there. Is it awaiting us round the next corner, or the next, or the next? We hope so, but we cannot be sure.

The upshot of the whole story is this: That unless, in the reasonably near future, a strong reversal takes place from the downward movement of commodity prices, so that producers may be able to make a profit and pay taxes so that Treasuries and Exchequers may be restored to solvency, so that restrictions on money remitt

country to country may be relaxed, we have got to face—and there is no good blinking at it—a wider and wider spread of bankruptcies and default.

To some of you this may seem to be a complete divergence from the theme which I have chosen. As I see it, however, it brings me back abruptly to war debts in general and the Anglo-American War debt in particular. The settlement of this question straddles, like an evil Colossus, over the path that leads to international co-operation, along which alone progress towards economic recovery can be reached. Surely, therefore, it is essential that we, in this country, should do everything that is conceivably within our power to facilitate a settlement with the United States. I would go so far as to say that the only limits to the terms that we might offer are, firstly, that they should be within our power to perform without postponing or endangering the chance of restoration of conditions favourable to exchange stability; secondly, that they are such that the British democracy would be willing to pay; thirdly, and not least in importance, that no arrangement should be sanctioned which would not leave intact the Lausanne Agreement, by which Europe last July cleared her own decks of the wreckage of obligations arising out of the War.

Viewed crudely the gap between the American and the British position is unbridgeable. America says to Britain, "If we give you revision, we must have a *quid pro quo*, and what we want is a return of the pound to the gold standard and market concessions." We must frankly admit that we cannot promise a return to the gold standard unless and until we are certain that the causes which drove us from it in 1931 will not again operate. To give such a promise under any other circumstances would carry no hope and no help to the world in general. Equally frankly we must say that, so far from being able to give special concessions to America to facilitate her exports to Europe, it is the prohibitive height of the American tariff which obstructs recovery of world trade. It has been said with force, and I think with justice, that the Smoot-Hawley tariff has torpedoed more international commerce than all the submarines that Germany launched during the War.

Yet surely there is a large territory of solid and important ground on which British and American statesmen can meet! Far and away the biggest preoccupation of Mr. Roosevelt when he enters the White House, in ten days' time, is how to save the whole of his vast farming community from ruin. Put in another way, his most urgent problem is to raise the market value of primary products. The British Government in the House of Commons, at Ottawa, and at Geneva, have declared that precisely the same result must be the aim of their own monetary policy. Have we not here something to give to America in the way of effective and immediate co-operation, which would, in the eyes of the American masses, be precisely the *quid pro quo* on which they must naturally insist?

By way of conclusion, may I be bold enough to suggest that the profession which you represent has, in these stressful times, an opportunity far greater than it has ever enjoyed before, and greater probably than that which attaches to any other profession, both of helping towards the formation of sane opinion in these grave financial matters and also of ensuring that the appalling financial chaos into which the world has drifted will not be repeated. Without for one moment forgetting the absorbing problems of the realm of company finance, which taxes to the full the every-day efforts of accountants, I should nevertheless like to plead that the finest brains of your profession should be concentrated in the next few years more to the study of public finance; both internal and international, with a view

to creating a sane public opinion upon these matters, and of offering expert and reasoned guidance to those who have to decide big policies and who, only too often, by reason of their other preoccupations, cannot have expert knowledge of the problems for the decision of which they cannot avoid responsibility. It is a vast opportunity for public service. I envy you the opportunity.

## ACCOUNTANCY IN AMERICA.

### Proposed Consolidation of National Societies.

A movement for the consolidation of the two national associations of practising accountants has been started by the New York State Society of Certified Public Accountants by resolution of the board of directors in the following terms:—

That in view of the desirability of the profession of accountancy being represented by one national organisation, the President of this Society be authorised and instructed to appoint a committee of five members to approach the American Institute of Accountants and the American Society of Certified Public Accountants with a view to bringing about a merger or such other form of consolidation as will bring about the existence of but one national organisation; and that this Society invites and welcomes the co-operation of other State societies of Certified Public Accountants and the said national organisations in attempting to accomplish the desired result.

Following this the President of the New York Society sent out, with the approval of the board of directors, a letter to the President of each of the national organisations, and a copy of the letter was also sent to the President of each of the State Societies of Certified Public Accountants. It is stated that plans have been made for the appointment of a committee on national organisation to study the conditions so far as they concern the members of the New York State Society of Certified Public Accountants.

### Chambers of Commerce and the Gold Standard. A Backward Glance.

The Association of British Chambers of Commerce have been giving consideration to the currency question, and have adopted a report of their financial and taxation committee, in which the view is expressed "that the movement in the value of sterling in relation to gold currencies reflects a rapid appreciation of gold, caused by this having been treated as a commodity, and monopolised, rather than a fall in the value of sterling as expressed in commodities or real wealth." They accordingly deplore any action by the Government to stabilise sterling in terms of gold or any other metal at the present time. At the same time they recognise the extreme importance of stable international exchange, but consider that commercial interests should be consulted when the subject comes up for consideration.

At the Conference of Municipal Treasurers and Accountants to be held at Folkestone in June next, Mr. Edmund Lund, F.S.A.A., City Treasurer of Carlisle, will deliver an address on "A Comparative Review of Local Government Financial Administration Abroad." It is thought that some of the delegates to the International Conference of Accountants may be interested in this subject.



## Professional Appointments.

Mr. Harold Graham, A.S.A.A., Assistant City Treasurer, Carlisle, has been appointed Borough Treasurer of Nelson.

Mr. R. S. Koller, A.S.A.A., Town Clerk and Treasurer of Kroonstad, has been appointed Chief Accountant to the Cape Town Municipality.

## ABERDEEN AND DISTRICT STUDENTS' SOCIETY.

The Aberdeen and District Incorporated Accountants' Students' Society held their annual dinner on the 8th ult. Mr. Alexander Davidson, F.S.A.A., Peterhead, President of the Students' Society, occupied the chair, and was supported by Mr. D. R. Bishop, A.S.A.A., Deputy City Chamberlain, Aberdeen, Vice-President of the Students' Society; Mr. J. Stewart Seggie, F.S.A.A., President; and Mr. James Paterson, F.S.A.A., Secretary of the Scottish Branch; Mr. J. F. Tocher, D.Sc., F.I.C., Lecturer on Statistics at the Aberdeen University; Mr. William Webster, A.S.A.A., Town Chamberlain, Peterhead, &c.

The dinner was followed by a meeting of the Students' Society, at which Dr. Tocher gave a lecture on Statistics. Mr. Davidson said that the presence of Mr. J. Stewart Seggie, Chief Accountant, Department of Health for Scotland, the President of the Scottish Branch, and Mr. James Paterson, Scottish Secretary, at their meetings was a source of great encouragement to those in the Aberdeen and District Students' Society.

In introducing Dr. Tocher to the meeting, the Chairman said that the lectures given from time to time were for the purpose of assisting students in the preparation for their examinations. He found that two of the subjects which gave particular trouble were Economics and Statistics, and they were fortunate in getting Dr. Tocher to give them a lecture on Statistics that evening.

In the course of his lecture, which was illustrated by lantern slides, Dr. Tocher gave a short account of the principles underlying the study of Statistical methods as applied to accountancy and other similar problems. He gave an exposition of the meanings of the various kinds of averages in use and the degree of variability that occurred in ordinary distributions. He also dealt with correlation.

He thought it was desirable that the examples in examination papers should be made as simple as possible, and that they should present practical problems and explain what exactly they wanted to get as an answer.

Mr. Seggie proposed a vote of thanks to Dr. Tocher for his lecture, and said that the subject of Statistics was far too often overlooked, even in the accountancy profession. The Incorporated Society had put the subjects of Economics and Statistics on their syllabus for a good many years now, and the object was to get candidates to study these two subjects in their application to industrial questions, and to be able to apply them in actual practice.

Dr. Tocher, in reply, said that he would be very pleased to give a lecture or two to the students in the Aberdeen district prior to their examinations.

## INCORPORATED ACCOUNTANTS' STUDENTS' SOCIETY OF GLASGOW.

A very successful whist drive and dance was held in Burlington House, Glasgow, on January 28th. There was an attendance of about 80. At an interval in the proceedings, Mr. W. Davidson Hall, F.S.A.A., President of the Students' Society, congratulated the Committee on the successful function.

Mr. James Paterson, F.S.A.A., Secretary of the Scottish Branch, announced the names of the winners of the whist prizes, and called on Miss Hall, sister of the President, to present the prizes.

Miss Hall also presented the Dunlop Cup to the winner for the year, Mr. Mungo B. Campbell, A.S.A.A., Glasgow.

## Scottish Notes.

(FROM OUR CORRESPONDENT.)

### New Book on Companies Act, 1929.

It takes some courage to justify another manual on the Companies Act, but Mr. A. C. Bennett, of Messrs. John Oswald & Son (Registration Agents), Limited, Edinburgh, has written a manual which supplies a want experienced by Scottish practitioners. The book is entitled "The Companies Act, 1929, with Special Reference to Scotland" (10s. 6d. net, Edinburgh: Green), and embodies the results of many years practical experience in the formation, registration and administration of companies in Scotland. It has not been considered necessary to print the Companies Act, 1929, as it is available otherwise, but the two Acts of Sederunt, which were promulgated under the Act and which are necessarily of great importance in regard to Scots practitioners, and not easily accessible, are included in the work. There is an index of cases as well as a general index. The volume will be of considerable assistance, not only to practitioners and students, but to all interested in Company Law in Scotland.

### Valuation of Shares of a Private Company.

Last month Mr. David Allan Hay, C.A., Glasgow, gave a lecture on the above subject to the Glasgow Chartered Accountants' Students' Society. In the course of his address, Mr. Hay referred to remarks made by Lord Fleming in a recent Court of Session case, which was of great interest in connection with this subject. Lord Fleming indicated that in valuing the shares of a private company for estate duty purposes, consideration must be given to all the relevant facts so far as known at the date for valuation, and likewise to what prudent investors who knew these facts might be expected to be willing to pay for its shares. He further suggested that the relevant facts might be classified under the following heads:—

(1) The history of the industry; (2) the history of the company from its inception to the date of the valuation, and, particularly, its position at that date; (3) the prospects of the industry generally at that date, and of the company in particular; (4) to what extent the restrictions in the Articles might be expected to depreciate the value of the shares.

Many considerations other than the mere figures in a balance sheet had to be taken into account. After all, their valuation only represented their opinion, which he hoped would have been reached on sound grounds, and after due regard to all the relevant facts so far as they had been able to ascertain them.

## Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases (Scotland)*; S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

### COMPANY LAW.

*In re Walters' Deed of Arrangement—Walters' "Palm" Toffee, Limited, v. Walters.*  
*Dividends on Preference Shares.*

The only right which a guarantor of dividends on preference shares has in respect of sums paid under the guarantee is a right to be subrogated to the preference shareholders. He has no right to proceed as a creditor against the company in respect of those sums.

(Ch.; (1933) W.N., 29.)

*In re Matthew Ellis.*  
*Winding Up and Floating Charge.*

A debenture was issued within six months of the liquidation of a company by way of floating charge, to secure £3,000 to be applied in payment of a past debt and for general business purposes.

Eve (J.) held that the past debt was not cash paid to the company at the time of the creation of the charge under sect. 206 of the Companies Act, 1929, and the debenture would only stand as a security for the difference between the past debt and the amount of the debenture.

(Ch.; (1933) L.J.N., 63.)

*Broken Hill Proprietary Company, Limited, v. Latham.*

*Redemption of Interest on Debentures.*

The Court of Appeal reversed the decision of Maughan (J.) (see *Incorporated Accountants' Journal*, October, 1932, p. 30), and held that the redemption and payment of interest on debentures payable in London by an Australian company, where the debenture holders had an option to require payment in Australia or in London, should, if the option to require payment in London was exercised, be paid in Australian currency converted into sterling at the rate of exchange current in London on the due date for payment thereof.

(C.A.; (1933) 49 T.L.R., 137.)

*Stead, Hazel & Co. v. Cooper.*  
*Contracts of Liquidator.*

A liquidator appointed by the Court is not in the same position as a receiver and manager appointed by the Court, and there is no presumption that when he performs a contract without disclaimer, or makes a new contract, he does so in his personal capacity, although he describes himself as liquidator; nor does sect. 207 of the Companies Act, 1929, which confers on him the right of disclaimer of an onerous contract, operate so as to render him personally liable if he fails to exercise that right.

(K.B.; (1933) 49 T.L.R., 200.)

## EXECUTORSHIP LAW AND TRUSTS.

*In re De Carteret.*

*Valid Charitable Trust.*

A testator bequeathed a sum of money to trustees upon trust to invest it and to use the income of the investments in providing annual allowances of £40 each to widows and spinsters in England whose income otherwise should not be less than £80 or more than £120 per annum, preference to be given to widows with young children dependent on them.

It was held that the provision was in substance for widows of small means with young children dependent on them and created a valid charitable trust.

(Ch.; (1933) 1 Ch., 103.)

### REVENUE.

*Henry v. Galloway.*

*Assessability of Director's Salary.*

A director of a company waived his salary unless the company should earn the interest on its debentures. The debenture interest was not earned.

Finlay (J.) held that nevertheless the director still held an "office of profit" and was assessable on the salary.

(K.B.; (1933) 49 T.L.R., 191.)

*Adamson v. Attorney-General.*

*Property Passing on Death.*

[The following should be substituted for the *Legal Note* on this case on page 184 of our last issue, which, by an oversight of our Legal Editor, gave the minority instead of the majority judgment.]

By a settlement for the benefit of children the capital and income of the trust fund was to be divided as the settlor should in writing direct during his life, or after his death in trust for his children then living as he should appoint, and in default the fund was to be held in certain specific proportions.

The House of Lords, by a majority of four to three, varied the order of the Court of Appeal (see *Incorporated Accountants' Journal*, September, 1932, p. 463), and declared that upon the true construction of sect. 1 of the Finance Act, 1894, and in the events which had happened, the settled funds and accumulations subject to the trusts of the settlement were not property which passed on the death of the settlor, and estate duty did not become leviable and payable upon the principal value thereof, but declared that upon the true construction of sect. 2 (1) (d) of the Act of 1894 the beneficial interest of each child of the settlor in the said settled funds and accumulations to the extent to which the principal value of such beneficial interest upon the death of the settlor exceeded the actual value, if any, of the expectant beneficial interest of each child prior to such death was an interest accruing or arising on his death, and was therefore to be deemed to be property passing on the death of the settlor, and that estate duty on the principal value of such excess was leviable and payable accordingly.

(H.L.; (1933) W.N., 5.)

*Vanbergen v. St. Edmund's Properties, Limited.*

*Consideration for Contract.*

A trader against whom judgments had been obtained was served with a bankruptcy notice for part of the debt due, and it was agreed that if the debtor paid the full amount through a bank to the account of the creditors' solicitors at another bank, the bankruptcy notice would be withdrawn. The money was duly paid to the bank, but notwithstanding a bankruptcy notice was served on the debtor.

Macnaghten (J.) held that there was consideration to support the agreement and the service of the bankruptcy notice entitled the debtor to recover damages.

(K.B.; (1932) W.N., 261.)